

FAR EASTERN ECONOMIC REVIEW

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REAL STRENGTH OF STERLING IN WORLD TRADE

Sterling, even in its inconvertible form, is still the currency of a large part of the world and while most other European currencies have been making heavy weather, the pound is being more wanted, than offered, in many countries outside the sterling area. In addition to the United Kingdom and her Colonies, the sterling area comprises the following countries—Australia, New Zealand, the Union of South Africa, Eire, India, Pakistan, Southern Rhodesia, Burma, Ceylon, Iraq, Iceland, the Faroe Islands and also Siam, the last named country having joined the sterling area last September. All these countries are in close and continuing consultation on development in their financial and economic problems, and at a recent meeting new arrangements have been made for such consultation to continue in an informal manner on the basis of the regular exchange of information about the whole situation.

Throughout its long history the sterling area has always been a wholly voluntary association of countries which, for obvious reasons of convenience and self-interest, found it desirable to maintain sterling to keep their external cash reserves in London, and to treat London as a banking intermediary in their dealings with non-sterling countries.

The sterling area acquired more recognisable shape after sterling left gold in 1931 and when many countries, both within and outside the Commonwealth, faced with the choice of following gold or sterling, chose sterling. Until 1939, the essence of the sterling area mechanism was the complete and unrestricted convertibility.

Post-war Developments

After the outbreak of World War II it was inevitable that a system of exchange control should be erected between sterling and non-sterling countries. In a fight for survival, convertible sterling had to be sacrificed, leaving payments free, whether for current or

for capital purposes, within the sterling area itself. All members continued, as in the past, to remit their foreign exchange earnings to the central pool which supplied them with the hard currencies they required. Those requirements were controlled and limited by "gentlemen's agreement". With the end of World War II the position continued unchanged, except that some of the countries, notably Egypt and Iraq, were given specific quotas of hard currencies, instead of retaining the automatic right they had until then enjoyed to dip into the sterling area dollar pool.

Since then, Egypt has seceded from the sterling area, but reports from that country suggest that it may not be long before she asks to rejoin the sterling family.

In connection with the Anglo-American Loan Agreement sterling receipts from current transactions became freely convertible, which position, however, ended on August 20. These changes left the technical position of the sterling area unaffected.

Growing Strength of Sterling

One of the most important tasks of Britain's production and export drive is to supply further evidence that the pound is worth holding. Recent coal exports from Britain have contributed considerably to the strengthening of the position of the sterling in world trade. Britain's readiness to supply much needed goods is regarded here as the main source of the growing strength of sterling. Exchange guarantees, which have been embodied in certain of Britain's monetary agreements recently, have been given only in quite exceptional circumstances and are not considered as a sound basis on which to build up a high level of trade in sterling.

Britain's international banking position gives additional weight to the sterling in world trade. Britain's international banking operations have made a spectacular recovery after their in-

evitable eclipse during the years of World War II. For this recovery several factors are responsible. Britain holds and operates the gold and dollar reserve of the sterling area and so London must remain banker to the area. British banking houses have retained the best available mechanism of international banking. Another fact of considerable importance is the great increase in sterling area trade, for which London is the inevitable financial centre.

In spite of the growing strength of sterling in world trade, Britain, for the time being, cannot in practice avoid the necessity of special arrangements to assure its imported supplies and balance of payments. Yet, Britain's financial leaders have never ceased to realise that the real strength of sterling in world trade is dependent on the satisfaction of the holders that they can obtain directly, or indirectly, for sterling any goods they want. Countries of the sterling area are satisfied that this will be the position in a not too distant future. This is the reason why the sterling area continues to exist without any rigid set of rules. The sterling area is, in many respects, a monetary counterpart of the political relations of the Commonwealth. In spite of all vicissitudes it remains, in essence, what it always has been—a voluntary association of countries bound to act as they do by ties of self-interest and the certainty of a brighter future.

CONFISCATION OF THE "FAR EASTERN ECONOMIC REVIEW" IN MACAO

The Censorship office of Macao has confiscated the last issues of this Review. Obviously, the factual reports dealing with gold transactions and the manipulations of the exchange rate between HK\$ and Macao pataca, as published by the Far Eastern Economic Review, are to be suppressed. One cannot help asking: In whose interest is Macao's censor confiscating the copies of a Hongkong publication?

In spite of general and repeated demands for its immediate abolition, the censorship of the Portuguese Colony continues to function.

HONGKONG & SHANGHAI BANKING CORPORATION'S 131ST REPORT

Address of the Hon. A. Morse

The annual ordinary meeting of shareholders of the Hongkong & Shanghai Banking Corporation took place in the Colony on March 5, when the 131st Report of the Board of Directors was submitted and the Chairman of the Board and Chief Manager of the Corporation, the Hon. A. Morse, addressed the gathering as follows:—

Balance Sheet.

From the Balance Sheet you will see that our business continues to expand and there has been an increase in the total of the accounts during the year of about £23 millions. Our Note Issue has increased by over £12 millions and Current and Deposit Accounts by over £10 millions. On the assets side Cash in Hand is up by £1½ millions, Certificates of Indebtedness by £12 millions, Bills Receivable by £1½ millions, Investments by £2½ millions and Advances by £5½ millions, while money at call is down by £2 millions. The increase in our Note Issue is due to a great extent to the uncertainties at present unfortunately attached to the currency of China and not to any inflationary tendency in the Colony during the year under review. The amount of HK\$2 millions written off Bank Premises brings the figure appearing in the Balance Sheet slightly below that shown last year after taking into account additions during the year under review. In this connection I may mention that there is considerable heavy expenditure ahead both with regard to our actual banking premises and housing accommodation for our Staff, so that the reduction referred to cannot be regarded as permanent.

Profit & Loss Account

Turning to the Profit and Loss Account you will observe the profit arising from current transactions during the year, after making certain transfers to Provisions for Contingencies, amounts to HK\$16,595,079 which exceeds our profit for the previous year by approximately HK\$7 millions.

In the various countries in which we operate an unparalleled number of constitutional changes have taken place in the past year or are at the moment being fashioned. When one considers the upheavals in the East it is surprising that we have been able to produce such a good Balance Sheet and I hope you will agree with me that the results of the past year are very satisfactory.

It is with great pleasure that your Directors are able to recommend the payment of a final dividend of £3 making a total of £5 for the year similar to that paid for the year 1940.

Much credit is due to the Staff for the hard work they have done since

they resumed their duties. Their keenness, and I may say their enthusiasm, will help us to face the future with confidence in spite of the difficulties with which banking is confronted in many of the countries where we operate.

Trustee Company

I am glad to say that the Trustee Companies which we established here and in Singapore a little over a year ago are both proving their worth and are actively extending their usefulness.

Branch Offices

Since our last Meeting we have opened new Offices at Kuala Belait in Brunei State, Tawau in British North Borneo and at the Cameron Highlands in Malaya. In Japan we received permission to reopen at Tokyo and Kobe and to start a new Office at Kure to provide banking facilities for the British Commonwealth Occupation Forces. We have now 46 Offices open but six of our prewar Offices still remain closed.

Recovery in Britain and Continental Europe

His Majesty the King, in his broadcast last Christmas Day summed up the situation in which Britain finds itself today in saying "Here at home the greatness of our contribution to victory is in the measure of our present difficulties." It is very true that we have only recently begun to realise how seriously our great contribution to the victory in Europe has affected our national economy. Moreover it is now clear that almost all Governments throughout the world under-estimated the extent of the disaster caused by the total war from which we are now trying to recover. They also neglected to perceive some of the consequences. This applies more particularly to Europe where industrial production for war purposes was forced to the highest possible level—where destruction was on a vast scale—and where disorganisation was far worse than at first sight seemed to be the case.

The Marshall Plan is a noble gesture which will we hope give the nations in Europe benefiting from the proposed aid a chance to reconstruct their economies and so to achieve freedom from that want which leads to despair and desperation.

Civil War in China

In China the situation at the end of hostilities with Japan was different from that in Europe. Being predominantly an agricultural country she was in a better position to recover rapidly but the longer period of turmoil which had existed could not fail seriously to affect the economy of the country and its morale. There were however fair chances that trade and industry would

be restarted on a peace time basis without any excessive complications and such might have been the case had it not been for the differences between the Kuomintang and the Communists which spread steadily throughout 1946 and 1947 and developed into an open split in spite of the efforts of General Marshall and other mediators.

So far the main areas of disturbance remain north of the Yangtze River and from Shensi Province eastwards to the coast, but the situation has deteriorated since our Meeting last year. Of the wealthy North-Eastern Provinces there remains in Nanking's control little more than a tenuous hold on Mukden; the Lung-Hai railway is badly disrupted and crossings of the Yangtze River have been threatened. In South and West China and in Taiwan conditions are generally quiet, but in many parts there is a feeling of unrest due to fears of disturbances inspired by Communists or other disaffected parties. The disgraceful Shamen episode in January was one such case which developed without warning.

Inflation in China

China's financial situation is also not a happy subject to discuss, nor are the details clear. But Chinese Government spokesmen have frequently noted the fact that the inflation of currency to meet the budgetary deficit, which it was hoped would be checked at the end of hostilities with Japan, has in the postwar years increased at a dangerously enhanced pace, almost solely because of the needs of the military in their operations against the Communists.

The official exchange rate for the United States dollar jumped by stages from 3,350 to 89,000 Chinese dollars in the course of the year while black market rates have been 25% to 50% above the official rate. Moreover the Central Bank's wholesale price index in Shanghai rose about 15 times in 1947 over the 1946 figure while the cost of living rose in the same period 10 to 12 times according to the classes of persons concerned.

The outstanding fact is, as emphasised by the Minister of Finance in an interview reported in the press on December 23, that there is little hope of stabilising financial conditions so long as the enormous military expenditure continues. Currency reforms will of course be necessary, but while the basic causes of inflation are not eliminated, the Minister added, the issue of a new currency would complicate and not lessen the problems.

Meantime the Central Bank and the Central Authorities have made vigorous and sometimes successful efforts to lessen the diseases of inflation and

prevent the situation getting out of hand. Their task has been exceedingly complicated and, under the circumstances, it is surprising that they have been able to hold the fort in spite of military demands, smuggling, black markets, speculative operations and all the evils which are legacies of war.

Trade Controls in China

As regards foreign trade, by means of regulations governing the import and export trade and by frequent adjustments of the official rate of exchange, it appears that reasonable success has been obtained in encouraging exports and in checking the enormous surplus of imports which the Customs returns showed in 1946 and early in 1947. At the end of 1947 imports were reduced and exports were making a better showing but obscurity veils our information about smuggling.

We recognise that in times of crisis it is necessary for financial and trade controls to be introduced by Governments and some such intervention by the Chinese Government has undoubtedly been necessary since the war, but there are limits to which this should go, and there is widespread dissatisfaction in China with what has been termed "the jungle growth of Government monopolies and bureaucrat controlled enterprises."

Basic Difficulties of China

China is expecting early assistance from the United States to help her out of her present difficulties but whatever the aid may be, even after settling her political troubles, China will have much reconstruction and development to undertake by her own efforts for many years to come and the help she receives will be wasted if it does not enable her to complete permanent arrangements for stabilising her economy.

China's Default of Foreign Debt Payments

Once again I must refer to the matter of China's foreign debts the importance of which is sometimes overlooked in China and in America but not in London. China's credit in the eyes of the investor will remain in poor standing until her external debt record is put straight.

The Moratorium on prewar foreign loan service payments which was announced by the Chinese Government in January 1939 is still in force but on August 13 last an important official statement was issued reaffirming China's intention to repay the external loans and categorically stating that the conclusion of new loans in recent years did not in any way prejudice the security of the prewar loans nor vitiate the rights of the bondholders thereof.

This was a carefully considered statement which, in addition to being officially issued, was also communicat-

ed to the Chairman of the Chinese Bondholders' Committee in London by the Ministry of Finance. But it can hardly be satisfactory to prewar bondholders that in spite of this statement, interest and amortisation payments on wartime and postwar loans (for example those made in the past two years by the Export-Import Bank of Washington) should at this moment be paid out of the foreign exchange resources of the Government, while no move has been made to pay even interest on the earlier loans of the Chinese Government secured on a specified security such as the Customs revenue, which has now once again become one of the most important sources of revenue.

I may say that unfortunately the Chinese railways are in much the same state as when I spoke about them last year. North of the Yangtze the position is deplorable owing to Communist activity. South of the Yangtze things are much better but a great deal of new rolling stock and other materials are needed.

Chinese Treatment of Foreign Investments and Earnings

In recent months the Chinese Government has reiterated that foreign capital coming to China will be free from inequitable and restrictive legislation, and will be permitted to remit overseas a reasonable return. In July Premier Chang Chun replied in the sense to a questionnaire by the United States Ambassador and again in August he said that a procedure was being worked out whereby an appropriate portion of foreign capital invested in industries might be remitted abroad. Unfortunately no practical steps have yet been taken to permit reasonable profits, nor even properly chargeable foreign currency expenses, to be remitted. In the circumstances it has not been possible for our Offices in China to contribute towards our dividend.

Hongkong's New Governor

Last July we were pleased to welcome Sir Alexander Grantham back to Hongkong as Governor of this Colony. The fact that he was a former member of the Civil Service here and was married in Hongkong makes us regard him as the head of our family and it is in this sense that we look to him to deal with our problems.

Hongkong's Assistance of China

During the past year certain arrangements have been concluded between the Colony and the Chinese Government dealing with trade and customs matters which aimed at assisting China to stop evasions of her own regulations. At the same time safeguards were obtained so as to prevent trade from being diverted from Hongkong to other territories.

A further measure which will clearly be of advantage to the Colony in enabling control over undesirable banks, while also indirectly capable of benefiting China, is the new Banking Ordinance relating to the registration and control of banks in the Colony. In these and in other ways the Colony has gone out of its way to meet China's needs.

Hongkong's US\$ Earnings

Naturally the Colony is also doing its utmost to give the Home Government every assistance in their financial policies and particularly in the conservation of hard currencies for the sterling area pool. The Colony's dollar earning capacity is limited but it is trying to reduce the local drain on these resources.

Sir Stafford Cripps has made frequent statements about the critical shortage of dollars and in December he appealed to the members of the sterling area to help maintain and strengthen its reserves. The following sentence taken from his speech in Parliament on that occasion is, I think, well worth repeating to indicate the keynote of the export-import policy of the United Kingdom. He said:—

"We cannot build a healthy economy upon restrictions on imports or a jealous care of our reserves; we must increase our foreign exchange income and retain the confidence of other countries in the stability of our economy, not by credit from abroad but by our own efforts in production."

Hongkong's Industries

In regard to local industrial production I am glad to say that at the present time some notable steps are being taken which will increase the productivity of the Colony. Several new cotton mills are being erected or planned and before the end of this year it is expected that over 50,000 spindles will be installed. There has also been progress in other directions and sales of industrial power by the Electric Light Companies are expected before long to exceed their prewar maximum, all of which should improve the financial status of the Colony.

Hongkong's Airport

The expansion we have seen in 1947 in the use of Hongkong as a civil aviation centre should in due course prove to be another important development but this cannot progress much further without the establishment here of an up-to-date airport which unfortunately has not yet been approved by the Authorities at home although it is surely a project which deserves important priority in these days of air travel. Our harbour and ship-repairing facilities are unequalled in the East and bring useful revenue to the Colony and it is regrettable that so far little has been done to encourage air services to come to Hongkong.

Hongkong's Foreign Trade

We expressed satisfaction last year with the foreign trade returns which in 1946 totalled about one thousand seven hundred million dollars but in 1947 the figures came to two thousand seven hundred and sixty six millions which was 62% more than the previous year and nearly 2½ times more than 1938. Allowing for the higher prices prevailing at the present time, it will probably be found that we are still some way off the prewar volume of trade.

Hongkong's Budget

The accounts of the Colony are expected to show a welcome surplus of between 25 and 30 million dollars for the current year as against a deficit in 1946 of 34 millions but in the year 1948/9 Government expenditures will be heavier mainly as a result of the recommendations of the Hongkong Salaries Commission.

The fifty million dollars 3¼% Loan floated recently, although fully subscribed, was not taken up by small subscribers in the proportion hoped. However it is satisfactory that the Government will be able to proceed with the development plans described in the loan prospectus.

Hongkong University

I have long taken a personal interest in Hongkong University and am glad that the Council and Court of the University have recently been reestablished. The first steps of rehabilitation having been completed rapid progress can now be made to bring the University up to its prewar standard but in spite of the generosity of the Colony there are still urgent needs for funds and it is to be hoped that the Home Government will before long provide what is necessary to make the University a model institution with a sound financial basis.

The Moratorium

Two and a half years have now elapsed since the liberation of Hongkong and Malaya but despite repeated and urgent appeals for its removal the Moratorium is still with us. In the meantime the protracted delay and the inevitable changes that have taken place have greatly prejudiced the recovery by the Bank of debts which were outstanding before the Japanese occupation.

In Singapore the prospect of the early removal of the restrictions has been brightened by the publication last month of the first instalment of the much heralded and long awaited legislation designed to regulate the relationship between debtors and creditors in respect of debts incurred before and during the occupation. The main purport of the proposed legislation is to validate in some cases wholly, and in other cases

partially in accordance with a graduated scale, payments made to liquidators appointed by the Japanese for the liquidation of British banks and those of the Allied Powers.

In Hongkong legislation is anxiously awaited, but if the principles of the Singapore Bill are applied to Hongkong the result will be the validation against the Bank of considerable sums both in genuine and in occupation currency which the Bank never received but which were paid to agents of the Japanese Occupying Power who were appointed to liquidate the Bank and confiscated its funds in direct violation of the accepted principles of international law. Whether or not this legislation is well conceived in law or in equity the urgent concern of the public and of the banks now is that the prolonged suspense and uncertainty for which it is difficult to find any justification should be brought to an end with the utmost despatch.

Situation in Singapore and Malayan Federation

On February 1, the Federation of Malaya was inaugurated consisting of nine Malay States and the two Settlements of Penang and Malacca. Whether it is wise to leave Singapore out of the Federation remains to be seen: there are many who have doubts on this score.

The year 1947 was a satisfactory one for most traders in Malaya but the tin industry is still handicapped by the slow delivery of essential machinery. Rubber was depressed until the end of September when an improvement took place; however the industry remains under the shadow of the synthetic menace.

In spite of strong local opposition an Income Tax Bill was put into effect on January 1 last. One of the main grounds of opposition was the apparent extravagance in Government Departments which still remains a sore point with the merchant community.

I paid a visit to Singapore last August and, with our Manager, Mr. C. L. Edwards, toured Malaya and inspected our Offices throughout the country. I returned with a strong feeling of optimism about the future of the Peninsula. On November 22 the foundation stone of a new office in Orchard Road, Singapore, was laid by Mrs. Malcolm MacDonald, the wife of the Governor General. The building has been named MacDonald House and in addition to providing for the convenience of the public in a part of Singapore which has not hitherto been served by the Bank it will relieve the congestion at our main office.

Our Staff in Singapore and Malaya have been working with great energy throughout the year and you can be well satisfied with the way in which our organisation has been progressing in those territories.

British North Borneo

You will have noted that since the re-occupation we have been paying particular attention to British North Borneo and adjacent areas where we now have five offices established. I want to express our appreciation of the services rendered to us by Messrs Harrison & Crossfield by first acting as our Agents at Jesselton and Sandakan and then giving us valuable assistance in establishing our own offices there and elsewhere. They still remain our Agents in Labuan.

British North Borneo and Brunei have hitherto been largely undeveloped countries. Rubber, coconut and timber have been to date the main projects, while hemp growing and the development of fishery and canning industries in certain districts had been carried on by the Japanese. These latter industries are now being prospected with a view to continuation and extension. There are also possibilities of mineral wealth which are now being explored, while in Brunei oil production is increasing steadily.

Already enquiries are being made by some influential Chinese in regard to the prospects of opening business in these territories. There is undoubtedly great scope here for enterprise such as the British have shown in the past in developing the natural resources of backward territories, and the outlook is very promising for those who have energy and initiative. At the present time there is a shortage of labour but Government are taking active steps to overcome this difficulty.

Netherlands Indies, Siam, Indochina, Philippines

In the Netherlands East Indies and in Indo-China the political situation still dominates commercial enterprise. But twelve months of peace would go a long way to set these countries on the road to prosperity again.

Siam has also had its political troubles during the year but nevertheless our Office at Bangkok has done satisfactory business and a country backed by such natural wealth as exists in Siam must eventually return to a state of prosperity.

The Government of the Philippine Islands continue to proceed steadily if somewhat slowly with their rehabilitation programme. For the first time since liberation the sugar crop is expected to have an exportable surplus of about 225,000 tons. Copra and other coconut products as well as hemp are in great demand while the reconstruction work done to Gold, Copper and Chrome mines should result in increased production in 1948. I am pleased to say that our Office in Manila continues to expand its business.

India and Burma

The year 1947 will be marked as a turning point in the history of India owing to the transfer of power from Britain to the two independent Dominions, India and Pakistan. The communal disorders which followed caused widespread misery and although the crisis has passed, industry and commerce, as well as development plans have, of course, been greatly affected by these events, and it is difficult to judge how foreign trade will fare in the present year. In spite of these conditions our Offices at Calcutta and Bombay have not only maintained but expanded their activities very satisfactorily throughout the past year.

In Burma the transfer of power has gone more smoothly and has been marked by manifestations of goodwill. Internally the year 1947 was disturbed and there is much to be done to restore the country to prosperity, but Burma is so wealthy in natural resources that it only requires a strong and stable Government to ensure rapid progress in internal production and external trade.

Ceylon

In Ceylon the favourable trade balance of 1946 was not maintained in 1947 and strenuous efforts will have to be made to keep the finances of the new Dominion on a sound basis. Heavy new taxes are now being levied and recommendations have been made to put the rubber industry on a more satisfactory footing. The resumption of the tea auctions in Colombo was one of the events of the year.

Resumption of Business with Japan

I have already mentioned that we opened three offices in Japan in the course of the past year. Our Manager in Tokyo in trying to get these offices functioning on a proper basis has probably experienced a more difficult time than most bankers do in the course of their career. While little normal banking has been possible our offices have nevertheless proved of service to visiting business men as well as to the British Occupation Forces.

It seems clear that General MacArthur has accomplished a notable task since the occupation of Japan.

Unfortunately trading has been almost entirely on a Government to Government basis but there are indications that in future it will be gradually directed into the more normal commercial channels.

It is widely held that the main obstacle to rehabilitation in Japan is the uncertainty that exists regarding the Peace Conference and it certainly appears to be desirable on all practical grounds that the terms of the Peace Treaty should be agreed upon without further undue delay.

PROFITABLE YEAR OF HONGKONG & SHANGHAI BANKING CORPORATION

For the year ended December 31, 1947 the Corporation's profit amounted to \$16,595,079 (after making transfers to Provision for Contingencies, out of which accounts provision has been made for Bad and Doubtful Debts and the estimated amount of the losses arising as a result of war). From this profit were deducted \$80,842 (£5,000) Directors' Fees and \$2 million being written off Bank premises, thus leaving a net profit for 1947 amounting to \$14,514,237. To this amount was added the undistributed profit of 1946 amounting to \$1,841,861, making a total of \$16,356,098 for distribution.

A dividend of £5 per share (£2 interim and £3 final), free of Hongkong Corporation Profits Tax, was paid to shareholders consuming \$12,934,737 (i.e. £800,000 at 1/2-27/32). The carry forward for 1948 amounts accordingly to \$3,421,361.

BALANCE SHEET OF HONG KONG & SHANGHAI BANKING CORPORATION

At December 31, 1947

	HK\$
Share Capital:—Authorised and Issued: 160,000 Shares of HK\$125 each, fully paid	20,000,000
Reserve Liability of Members—160,000 Shares at HK\$125 per Share	HK\$20,000,000
Reserve Fund	97,010,526
Profit and Loss Account ..	3,421,361
	HK\$ 120,431,887
Hong Kong Currency Notes in Circulation—Authorised Note Issue against Securities deposited with the Crown Agents for the Colonies ..	HK\$44,200,000
Excess Note Issue against Hong Kong Government	

Anxiety about China

In conclusion, Ladies and Gentlemen, I must confess that, although we have had a good year and have started off well in 1948, one cannot avoid a feeling of anxiety on looking across at that great country, China.

Dr. Sun Yat-sen has often been quoted as stating bitterly that the old Chinese dogma "Knowledge is easy, action is difficult" made it hard to put into practice proposals which Chinese whole-heartedly supported in theory. I can only say that I fervently hope that just as Dr. Sun Yat-sen eventually succeeded in obtaining much of what he desired so now a solution will quickly be found in order that all China's peoples may in the words of the Atlantic Charter "live out their lives in freedom from fear and want."

Certificates of Indebtedness	HK\$571,942,086
Current, Deposit and Other Accounts—Including Provisions for Bad and Doubtful Debts and Contingencies	HK\$1,675,746,215
Proposed Final Dividend—in respect of year ended 31st December, 1947	HK\$7,760,842
	1,683,507,057

Notes:—1. There are contingent liabilities in respect of bills re-discounted, confirmed credits, guarantees given and forward contracts for the purchase and sale of foreign exchange.

2. Balances in currencies in respect of which an official rate of exchange existed at 31st December, 1947 have been converted at approximately the official rate; balances in currencies in respect of which no official rate of exchange existed have been converted at approximately the bank rate ruling at 31st December, 1947 or the last rate officially quoted prior to that date.

	HK\$ 2,420,081,030 (£149,679,491)
* * * *	
Cash at Bankers and in Hand	287,798,224
Hong Kong Govt. Certificates of Indebtedness ..	572,220,862
Money at Call and Short Notice	244,800,000
Bills Receivable	84,670,786
Investments—British Government Securities	HK\$387,705,520
Dominion Colonial and other Securities	HK\$206,735,170
	594,440,690
Investments in Subsidiary Companies—Trustee and Nominee Companies at Hongkong, Singapore and London	2,135,735
Advances to Customers and other Accounts including Accounts still subject to Moratorium	572,282,788
Balance of Remittances less Drafts and other Items in Transit	42,609,698
Bank Premises—At cost less amounts written off	19,122,247
	HK\$2,420,081,030 (£149,679,491)

EXCHANGE & FINANCIAL MARKET

AMERICAN DOLLAR TRANSACTIONS

Strong demand for TT New York coming from gold importing sources kept the rate on a high level. Merchant demand was also conspicuous. Buying interest for American goods is on the increase in spite of the prevailing high price of TT New York.

Sellers either held back or had exhausted their funds. Inward dollar remittances are now running at a low level although this situation may improve within a month. Free U.S.\$ export bills are readily taken up in the present mood of the market but recently our exports to America have not been as large as a few months ago.

An important factor in the present situation is represented by speculators; right now the bears and bulls balance each other but any rumour about the alleged intention of London to devalue sterling injects a strong speculative buying element into a market which has recently been so jittery.

From all accounts it appears that the local £/U.S.\$ cross rate is the lowest in all international free and unofficial exchange markets. Therefore it would only be reasonable to dispose of accumulated funds in New York at current high prices quoted in Hongkong. Last week's highest and lowest rates were respectively: notes H.K.\$ 564-535; drafts H.K.\$ 574-542; TT New York H.K.\$ 581-558. The local cross rates amounted to U.S.\$ 2.754 (lowest sterling rate) and U.S.\$ 2.867 (highest sterling rate). Business done in New York's free exchange market for resident sterling moved between U.S.\$ 2.88 to 2.98, i.e. on the average 5% higher than Hongkong. Other free exchange markets—not subject to such unusual demand for TT New York as witnessed here on account of gold imports into Macao—quoted sterling far higher (U.S.\$ 3 to 3.05).

The tendency in New York is favouring a better cross rate than currently paid as speculative selling of sterling, caused by apprehensions about the future position of sterling, has come to an end, and the general sentiment has changed to confidence in the stability of the official New York/London cross rate.

A more or less nominal rate for security sterling is quoted in Wall Street by a few brokers; however, there is practically no selling of any British securities at current rates (U.S.\$ 2.10/2.20). Pound notes continue to be transacted at U.S.\$ 2.45/2.50. European markets usually pay more for Bank of England notes while Far Eastern markets, of late, quote low cross rates (Hongkong's unofficial rate for £1 note last week was H.K.\$ 12.85/95, equalling a cross rate of U.S.\$ 2.25/2.30.)

The amount of locally hoarded U.S. notes seems to be on the increase in spite of continuous purchases made by native banks who dispatch these notes to U.S. for replenishment of their funds. Shanghai Chinese have carried millions of U.S.\$ in notes to the Colony where they prefer to store them. Hundreds of millions of U.S.\$ in notes are held by inflation-scared people in the Far East, the Chinese accounting for the largest percentage. Thus huge capital is tied up and holders do not derive any profits by hedging.

GOLD TRANSACTIONS

A very excited market which buzzed with rumours caused considerable fluctuations on the local unofficial gold exchange. Buyers from several new cities made their appearance here and partly offset the lack of interest shown by Chinese markets, especially Shanghai and Canton where, it appears, temporary saturation has caused less inquiry.

The highest and lowest prices here were (per tael of 37.7994 grammes) \$ 354 and \$ 341½ respectively, approximating cross rates of US\$ 50½ to 50%, per troy oz, an unusually low price considering the very high rates prevailing in China (Shanghai quoting last week between US\$ 62 to 67 per oz.).

The supply of gold from Macao has been strong but inquiry for large lots in Canton, Swatow and other South China markets was rather scanty; furthermore many local speculators were taking their profits which added to the increasing offers.

The spot market sold, inside the Exchange, 25,285 taels and another 25,000 taels changed hands on the curb market (internative bank settlements).

Macao's gold imports continued at about 50,000 to 60,000 ozs per week. The Catalina flying boat is carrying usually 30,000 ozs and calls on Macao twice a week. Owing to weaker demand in Canton sales by Macao native banks and Chinese dealers were depressed although several thousand ounces are daily re-exported from Macao directly into neighbouring China. Current stocks held by mostly two native banks in Macao are estimated at over 200,000 ozs which quantity is, practically daily, increasing.

Macao re-exports to Hongkong were last week between 5,000 to 10,000 ozs per day. Misfortune overtook one shipment as watchful Hongkong Revenue officers seized some 1,800 taels which value at present some \$ 630,000. Transportation charges for these illicit shipments have remained

steady at \$ 14 to 15 per tael (Macao gold market quotes usually that much cheaper than Hongkong.)

Many imports of gold effected at Macao have not been covered by an import licence as issued by Macao's Dept. of Economic Services. Last week part of a shipment discharged from the flying boat was held up and some 6,000 ozs were impounded as no import licence could be produced. However, this incident is due to be settled amicably.

The gold import quota for the current period ending March 31 has been fully issued by Macao Govt. and no new applications—although there have been filed very many of them—could be entertained. New licences are to be issued sometime in April.

The unofficial exchange rate of HK\$ in Macao is determined now by the requirements of gold importers for patacas which have to be bought from exchange shops for the purpose of depositing per one 50,000 ozs permit patacas 1.2 million. The Banco Nacional Ultramarino, which stipulated that only patacas are allowed as deposit of gold importers, refuses to sell its own notes, referring callers to the unofficial market. As there was last week still some demand for patacas from gold importers HK\$ quotation remained from 8 to 12% below the official rate. As soon as gold importers will have brought their last ounce of gold to Macao and then will be entitled to the return of their pataca deposits, the unofficial rate will again move back to par or even quote HK\$ at a slight premium. This clumsy but very profitable technique is now being played in Macao. The mushrooming exchange shops in the Portuguese Colony are also reaping some profit from these operations. The leading native banks in Macao are: Tai Fung, Veng Tak, Hang Son, Hang Seng, Hang Iec and Hang Fung.

Shanghai gold markets quoted at the beginning of last week (in millions of CN\$) 18/18½, quickly reached 19, 20, 21, topped 22½, and closed very firm around 22. Canton's gold exchange opened at HK\$ 341/49 per tael, moved sluggishly around HK\$ 339/346, and closed rather firm \$344/347, about \$ 7 lower than Hongkong. There were some raids and investigations in Canton last week but little notice was taken of it although official press releases made it appear as if there had been some "swooping down." Nothing of the sort happened.

Buyers from Taiwan were exploring here conditions for future regular supplies. They state that gold prices there are some 15 to 20% higher than here, and that last week sales in the Island were done around HK\$ 420 per tael (i.e. over US\$ 60 per oz.).

The gold market in Batavia and elsewhere in Indonesia is also interested in obtaining some supplies from here or Macao as prices in the Indies are moving around US\$ 55 to 58 per oz.

Gold markets in Swatow and Amoy closed last week at CN\$19½ to 20 million (TT Hongkong 55 to 60,000; TT Shanghai 840 to 910).

Bangkok open gold market, influenced by Hongkong rates, ruled slightly easier at 546 ticals per baht weight of 15.2 grammes or about 1,365 ticals per tael. (Bangkok quoted TT Hongkong 3.68 baht, US notes 21 baht).

TRADING IN GOLD

International gold dealers continue to show much interest in the Macao market which has absorbed during the past six months more gold than any other buyer in the world. The strong demand in China for increasing quantities of gold promises to maintain the current level of gold imports into Macao. Prior to last year's suspension of bullion imports into India—a measure dictated by the scarcity of India's dollar and sterling resources—Bombay was the principal buyer, however, imports into China, by way of Macao, assumed by early autumn of last year this position.

Supplies of gold came from Mexico and the U.S., Canada and Peru and a few other Latin American states whose gold ore was usually refined in the U.S. before shipment to the Far East; other sales were effected by bullion dealers in France, Czechoslovakia and, primarily, Belgium. (India also obtained gold from the USSR during the earlier part of 1947). Gold shipments from Europe were either liquidation of some private holdings; occasional official sales by the Swiss banks (at a premium of about 15% over parity); sales of semi-manufactured gold by London bullion dealers (the metal being supplied by Bank of England), and, probably the largest portion, sales of gold of North and South American origin. In the latter case it was mainly Belgian brokers who were anxious to acquire sterling at the unofficial rate (i.e. at a discount of about 20/25% against US\$.)

Exports of gold from London, or through London houses, were largely suspended after last August when the requests of International Monetary Fund (for the cessation of officially sponsored or condoned transactions at prices higher than parity) had to be observed. As most countries, however, did not adhere to the rules of I.M.F., London bullion circles eventually succeeded, towards the end of last year, to secure sufficient gold export licences for semi-manufactured (22 carat) gold sheets etc. and re-entered the international gold market. The British export promotion scheme for semi-manufactured gold, after a few months of almost complete suspension, is now again in operation.

Exports of gold from the U.S. for the week ending Feb. 18 totalled US\$900,000 (a quantity of about 26,000 ozs.) which practically all went to Macao, viz. US\$543,583 to Saigon (from where gold is re-exported to Macao) and US\$214,878 directly to Macao.

Sales of gold on the forward market of Hongkong—apart from the purely speculative, fictitious, position-clearing affair—are conducted on the basis of 15 to 30% margin money. Many but by no means all gold importers sell to native banks who cover their position by re-selling to other native banks or clients. There is much activity in this genuine forward market where delivery is stipulated within definite time limits. It often happens that one lot of gold, ready for shipment in the U.S., is being sold and re-sold many times before the unloading of the precious cargo in Macao. The commission fees and profits are piling up from one deal to the other, most buyers never seeing actual gold but only purchasing a piece of paper and transferring it to the next hand.

Besides gold bars and ingots (and 22 carat sheets which are usually refined by local and Macao goldsmiths) a large variety of gold coins is transacted here. The most popular one is the Mexican gold coin which equals 20 gold pesos of the Bank of Mexico, weighs 37½ grammes of pure gold and sells at about the same price as the tael which is the local market unit (one tael=37.7994 grammes, one gramme=0.026455 tael, one ounce troy=31.1035 grammes, one gramme=0.03215 ozs. troy). There are also smaller Mexican gold coins, from 2 gold pesos up. While last week one 20 peso Mexican coin sold around \$350, the 2 peso coin sold at \$17.50. A number of other Latin American coins are on sale at jewellers where also some French, English, Russian, etc. gold coins are offered.

The common people here and in China prefer to buy Chinese manufactured gold articles; these are usually very crudely worked out and serve less for ornamental purposes than as safe investment. Therefore Chinese jewellers turn out simple gold articles like Buddhas, other figures, bangles, rods etc. which, if bought for investment, are supposed to be of 99% purity. Gold ornaments for personal use are containing, in most cases, less than 50% pure gold; the fashion here and in China has now been for many years to wear for vanity's sake big gold rings and other personal jewellery of 9 carat gold (3/8th of purity) only.

CHARTERED BANK OF INDIA, AUSTRALIA & CHINA

Mr. Cecil Robbins Cherry has joined the Board of Directors of the Chartered Bank of India, Australia & China on February 25. Mr. Cherry is also a Director of Messrs. Boustead & Co., Ltd.

SILVER BULLION BUSINESS

The steady rate for TT New York kept silver prices up although exporters were not keen buyers. Dealers asked \$ 4.05 per tael, \$ 2.70 per dollar coin and \$ 2 per 20 cents coin. The New York price remains unchanged at 74½ US cents per fine oz.

Highest and lowest prices during 1947 in New York and London:

New York: 86¼ US cents (March 6), high; 50¼ (June 20), low.

London: 55½ pence (Jan. 2), high; 32d. (June 20), low.

Hongkong's silver market depends solely on New York for continued off-take. Conditions in the U.S. at present can be summarised as follows:—demand for silver from the arts and industries is expected to continue at the current high level at least until mid-year.

Accumulated supplies of the metal are small and no important change in production is expected. Furthermore, in the absence of information to the contrary, it is assumed the Bank of Mexico, an important factor in the 1947 market, will continue its operations. Relatively stable market conditions may be expected to continue under those circumstances. Estimated consumption by the arts and industry last year in the U.S. were 100 million ounces, a decline of less than 5 percent from the record peacetime consumption of 105,000,000 ounces in 1946. About two-thirds of the total used in 1947 was for sterling and plated silverware and consumption in those lines reached an all-time high. The demand for silver used for jewelry and for certain industrial purposes declined. Production in the U.S., Canada, Mexico, Peru and Bolivia last year is estimated at 120,200,000 ounces, compared with 110,800,000 in 1946.

HONGKONG CLEARING HOUSE

The clearing total for February amounted to \$624,267,531, a decline of \$66,629,532 against the month of January. The February figure is, however, a very large one and compares favourably with clearing totals for the months of October—December 1947 which amounted to \$611, \$512 and \$608 million respectively.

EXCHANGE BROKERS

In a market like Hong Kong where official foreign exchange rates do not change at all, the activities of Exchange brokers are largely superfluous. The unofficial exchange market with its incessant ups and downs remains the field of native banks and a class of financial brokers and merchants who, before the war, had entirely different occupations.

Professional obligations make it incumbent on Exchange brokers to restrict their business to the official market only. Consequently only a few of the pre-war broker still continue doing such business which yields very small profits. Some merchants are patronising brokers through whom they may be able, at times, to buy or sell at slightly better rates than are allowed by commercial banks. The difference might amount to 1/32nd and 1/16th in £ and US\$ deals respectively. It is in interbank business that the 4 or 5 active Exchange brokers here can prove of some service. While some commercial banks prefer to sell to other banks through brokers, other banks have no use for such services as they arrange inter-bank rates directly.

Last week's inter-bank business was largely done at the following rates: TT London 1/2-31/32 banks' selling, 1/3 banks' buying rate; TT New York 25-1/16 and 25-3/16; TT India 83 3/4-83-3/8; TT Singapore 53 1/4-53-3/8.

The money market was again easier than in the previous week and it appears that an easy money position is to rule for some time to come.

SELLING RATES OF FOREIGN EXCHANGE

The selling rates of Hongkong & Shanghai Banking Corp. are as follows:—

TT London	1/2-27/32
TT Sydney	1/6-3/8
TT Singapore	52-5/8
India	82-3/8
TT Canada	24-7/8
TT Shanghai	nominal
TT New York	24-7/8
TT Manila	50-1/16
TT Bangkok	243
TT Paris	5340
TT Saigon	310
TT Zurich	107

U.S. Cross rate in London: 402 3/4; 403 3/4.

The Banking Corporation is quoting buying rates on application for 4 months L/C and D/P London, Paris and other European capitals; 4 months L/C New York; 30 days India; and TT on almost all commercial centres in the world.

CHINESE MONEY MARKET

The official market rate in Shanghai remained unchanged at CN\$151,000 for TT New York. The unofficial quota-

tions rose during last week from CN\$280,000 per US\$1 at the opening to CN\$350,000 at the close. A revision of the official rate is urged by bankers and merchants in China who are at a loss to understand the policy, if any, of the authorities in Shanghai responsible for the periodic adjustment of the official rate in tune with the advancing black market price.

Hongkong notes sold in Shanghai at the close of last week between CN\$64,000 to 68,000, while in Canton rates opened the week at CN\$53/54,500, later topping 58,000.

Trillions and trillions of new printing press money have been put into circulation during the last 2 weeks and the concentration of funds in Shanghai has gained momentum after the debacle of Nationalist forces in the last bit of the

Manchurian corridor. Many North China merchants, in fact the possessing classes, continued to shift their funds to Shanghai as they feel the direct effects of approaching civil war. From Shanghai to Canton the flow of money has accelerated as will be seen from the large discount at which TT Shanghai has been traded compared to TT Canton (compare table below).

From Canton and Shanghai the flow of increasing quantities of paper money wends its way into Hongkong. Every other ship leaving Shanghai for Hongkong is well stuffed with brand new Chinese money. It is ironical that much of the locally printed CN\$ paper stream at first is sent to Canton but very quickly returns to the holds of local native bankers. Higher denomination notes than the present CN\$100,000 bills are now being produced, both by printing

HONGKONG OFFICIAL EXCHANGE RATES AGREED MERCHANT RATES

MAXIMUM SELLING				MINIMUM BUYING			
STERLING.	1/2 15/16	delivery within 2 months with a cut of 1/32 for every further 3 months forward.		1/3	1/32	T.T.	
				1/3	1/16	O/D.	
				1/3	3/32	30d/s.	
				1/3	1/8	60-90d/s.	
				1/3	5/32	120d/s.	
—Do—				1/3	1/8	O/D if under L/Credit.	
(East & South Africa)				1/3	3/16	O/L with L/Credit.	
—Do—						1/32nd up every 30d/s.	
(West Africa & West Indies)				1/3	5/16	O/D if under L/Credit.	
RUPEES (India)	82 %			1/3	3/8	O/D with L/Credit.	
						1/32nd up every 30d/s.	
				83	%	T.T.	
				84	%	O/D.	
				84	1/4	7 & 30d/s.	
				84	1/4	60d/s.	
				84	%	80d/s.	
—Do— (Rangoon)	82 %					All buying rates 3/16th higher than India.	
—Do— (Aden)	82 %			84	1/4	O/D if under L/Credit.	
				84	1/4	O/D without L/Credit.	
				84	1/4	30 & 60 d/s.	
STRAITS \$	53			53	%	T.T. & O/D.	
U.S.\$	24 15/16	delivery within 2 months with a cut of 1/16 for every further 3 months forward.		25	1/4	T.T.	
CANADIAN \$				25	5/16	O/D—30d/s.	
				25	3/8	60—90d/s.	
U.S.\$ NOTES				25	%	(Banks to pay Insurance and Postage).	
AUSTRALIA.	1/6 1/2			1/6	%	T.T.	
				1/6	15/16	O/D.	
NEW ZEALAND.	1/6 7/16			1/6	13/16	T.T.	
				1/6	7/8	O/D.	

HONGKONG UNOFFICIAL EXCHANGE RATES (IN HK\$)

		C.N. (per one million)										U.S. (per 100)				Pound			
Gold per Tael		Spot		Forward		S'hai		Canton			Draft	T.T.	I.C.	Guilder	Baht	Note			
Mar.	High	Low	High	Low	High	Low	T.T.	T.T.	Notes										
1	350 3/4	343 1/2	19 3/4	19	18 1/4	17 3/4	17 3/4	19	536	543	559	12 1/4	30 3/4	25 3/4	12.8				
2	350	341 1/4	19 3/4	19 1/4	17 1/2	17 1/4	16 3/4	18 1/2	540	553	562	12	30 3/4	25 3/4	12.8				
3	349 1/2	343	19 1/2	19	17	16	16	17 1/4	548	554	564	12	31	25 3/4	12.8				
4	353 1/2	345 1/4	19	18 3/4	17 1/2	16 1/2	15 3/4	17 3/4	560	564	576	12	31	25 3/4	12.8				
5	352	345 1/4	18 3/4	17 1/2	17	16	15 3/4	17	562	573	579	12 1/4	31 1/4	26	12.8				
6	354	347	18	17 1/2	16 3/4	16	14 3/4	17 3/4	562	573	581	12 1/4	30 3/4	26 1/4	12.8				

presses in China and by bank note manufacturers abroad; notes of half million and one million denomination will soon make their appearance in China.

Highest and lowest rates of CN\$ on the local unofficial exchange market for 1947 and as at March 6, 1948:

	(in Hongkong dollars per one million CN\$)		
	Highest	Lowest	Mar. 6, 1948
CN\$, spot	970	36½	17½
forward	730	29½	16
TT Shanghai	860	29	14½
TT Canton	940	29½	17

Last week's highest and lowest prices here were (per one million CN\$): spot notes HK\$19¼-17½; forward HK\$18¼-16.

UNOFFICIAL EXCHANGE BUSINESS

Demand for piastres was strong on account of heavy purchases by Swatow merchants who get these notes into Saigon for making purchases there. Larger lots of the "Red & Black" or Ideo notes were also shipped out of the Colony, buyers offering around \$7 per 100 piastres. Throughout the week the rate for the legal tender of Indochina was firm at around \$12¼ for 100 piastres. Spot market sales amounted to over 4½ million piastres. The TT Hongkong rate in Saigon ruled firm at 75%. Highest and lowest rates in 1947: \$15.40 and \$8.40 respectively.

Turnover on the baht market was heavy but Nica guilders were neglected. Bank of England notes found ready takers at \$12.80 to 12.90 despite sterling devaluation jitters. The supply of new pound (1 and 5) notes has recently been ample.

NEW TAIWAN DOLLAR EXCHANGE RATE

With effect from March 5, the Bank of Taiwan raised the exchange rate from CN\$ 100 to CN\$ 150 per one Taiwan dollar.

The last increase in the rate of Taiwan dollar took place on Jan. 27. At the beginning of 1947 the exchange rate was CN\$ 35. During one year the CN\$ has depreciated in terms of Taiwan dollar by nearly 350%. Taiwanese business men disagree with the low rate, insisting that even a rate of CN\$ 200 would not be realistic. Since inflation in China has greatly increased during the last two months, Taiwanese bankers and traders advocate the complete severance of any link or an even temporarily fixed exchange rate between CN\$ and Taiwan dollar, requesting an open rate. A low Taiwan dollar rate is regarded in Taiwan as an effective means to exploit the economy of the Island.

CHINESE CURRENCY CIRCULATION

The circulation of the legal tender of the National Government at Nanking has been estimated by responsible banking circles in Shanghai as amounting to CN\$ 60/70 trillion by the end of the first week of March.

The Chinese national dollar circulates in China Proper only; Taiwan and the Northeastern Provinces have their own currency note issues. The area of China Proper under control of the Nanking authorities has been reduced during last year and, consequently, the legal tender of Nanking has been expelled from such areas as have come under control of the Communist authorities. In those areas, termed by the Communists "liberated" areas, various new Chinese currencies have been introduced and while it is Communist-condoned, in certain North China territories and for a limited period of time, to continue business on the basis of the Nanking (CN\$) legal tender, the Kuomintang has never permitted any side-by-side circulation of CN\$ with what they term bogus money. The fact, however, remains that wide and increasing areas in North China have accepted the Communist-issued paper currency which always quotes considerably higher than CN\$ (on the average CN\$ 20 to 40 equal one dollar of the "liberated" areas).

With regard to Manchuria, or the Northeastern Provinces, the control of virtually all of the country is in the hands of the Communists and it is, therefore, pointless to consider the position of the Nanking-issued North-East dollar.

With regard to Taiwan, the Bank of Taiwan is the note-issuing authority and attempts, in the interests of the people of Taiwan, to keep Nanking's CN\$ out; an exchange rate between CN\$ and Taiwan dollar is fixed by the Bank of Taiwan and Central Bank of China but this rate is continually adjusted in favour of Taiwan dollar in view of the progressive inflation in Nanking. There is, of course, also inflation in Taiwan but the advance in the issue of printing press money there is far slower than in China. Bank of Taiwan note issue is kept a top secret just as is the case with CN\$.

In spite of Central Bank of China's efforts to conceal the amount of paper money issued and the monthly additions to the astronomical figure many bankers and officials in China possess sufficient influence to penetrate behind the Iron Curtain of Nanking's bank note printing press. The following amounts of CN\$ issue for the post-war period (August 1945 to February 1947) are based on well-informed estimates. (In millions of Chinese National dollars):—

Circulation of CN\$

1935 end	880
1937 June	1,400
1938 June	1,800
1938 end	2,300
1939 end	4,200
1940 end	7,800
1941 end	15,000
1942 end	24,000
1943 end	75,000
1944 end	190,000
1945 June	400,000
August	500,000
December	1,039,000
1946 early part	1,100,000
June	2,100,000
August	2,550,000
December	4,000,000
1947 January	4,500,000
February	4,860,000
March	6,120,000
April	6,880,000
May	8,370,000
June	9,900,000
July	11,700,000
August	14,700,000
September	17,800,000
October	21,200,000
November	28,200,000
December	34,400,000
1948 January	46,200,000
February	57,400,000

MONEY INTEREST IN CHINA

Due to the incessant inflation in China the rate of commercial banks' interest for loans as well as for deposits has been extraordinarily high. During 1947 commercial and native banks in China charged up to 30 and 35 percent per month while the highest monthly rate allowed for fixed savings accounts came to 27/28% per month.

According to tight or easy money position the monthly rate of interest fluctuates but it never went, in Shanghai, below 15% p.m. in 1947. Interest rates are at great variance in China which is also a consequence of the spread of civil war; relatively quiet South and South West China enjoy much cheaper interest rates than North China and the Lower Yangtse area.

Central Bank of China pays 12% p.m. on all inter-bank deposits which are received from commercial and native banks. Since these banks are legally required to deposit with Central Bank 40% of their total deposits and clients in China obtain far higher interest than Central Bank grants to commercial banks, general circumvention of the rule has been practised by banks as they must retain most of their clients' deposits if profitable working is to be expected.

In times of monetary inflation it is necessary that the Bank rate be flexible, that inter-bank deposits are keeping a high rate of interest in keeping with the actual conditions on the money market, and that loans are

FUTURE OF STERLING GROUP AND THE BRITISH COLONIES

In a recent address to Colonial Governors the Chancellor of the Exchequer, Sir Stafford Cripps, outlined the British policy of overcoming the current critical economic position. The contribution of the Colonies to the righting of the world unbalance will be essential but the whole future of the Sterling Group and its ability to survive depends upon a quick and extensive development of the African Continent. The immediate problem for the next few years is, first, to find ways of increasing Britain's capital resources available for investment, and, secondly, to invest that capital in the most profitable way so as to bring in quick results. The Colonies can make their contribution to the first need by reducing demands for unnecessary current consumption and devoting some of their own earnings to capital purposes, and they can contribute to the second by pushing ahead with individual projects of development.

Sir Stafford Cripps described the position and prospects of the Sterling Area in the following words (abridged and condensed version):—

The Sterling Area—and, indeed, the rest of the non-dollar world—has got itself completely out of balance with the dollar countries, and with the United States in particular. This is partly due to an acceleration of the tendency towards unbalance which was in evidence even before the first World War, and which was much more obvious between the two wars. Partly, too, of course, it is due to the very great upset caused by the two World Wars and the consequent set-back to European productive capacity.

This lessened European productive capacity meant in effect a slower development of all those areas that are

primarily dependent upon European capital goods manufactured for their capital development. That tendency is unfortunately accentuated by the present much higher degree of unbalance.

This unbalance is not merely or primarily in the manufactured products of the U.S.A., but also, and more importantly, in the foodstuffs and raw materials that members of the Sterling Group are compelled to obtain from the U.S.A., Canada or South America (all of which must be considered as dollar countries) simply because they are not obtainable anywhere else. The degree of unbalance has risen to extraordinary levels.

The dollar unbalance in the U.S.A. has been running at over 10 billion dollars a year, and this has been balanced by every kind of artificial device such as U.N.R.R.A. gifts for rehabilitation, loans and credits which have up to date enabled the flow of exports from the Western Hemisphere to be continued.

The Pre-War Position

The direct trade of Great Britain with the U.S.A. has always shown a great excess of exports from, over imports to, the U.S.A., but before the war this was precariously balanced by the dollars received from third parties, particularly members of the Commonwealth and Empire. This enabled the Sterling Area as a whole to maintain a balance and so preserve the convertibility of sterling, thus permitting a very wide area of multilateral trade throughout the world.

Our own set-back in production, consequent upon war devastation and our inability to buy foodstuffs and raw materials from the sterling area or non-dollar countries, coupled to the need of other Sterling countries to buy manufactured goods from the U.S.A., has resulted in the very heavy adverse balance of dollars running at the rate of between £600 and £700 millions a year for the Sterling Area. It is the problem of righting this tremendous unbalance which now confronts us.

It is vitally important that the great gravity of the common danger should be realised, and the need for every unit in the Sterling Area to make the greatest possible contribution to overcoming it. In facing that problem we must have it quite clearly in our minds that this is not merely a short-term difficulty; it is one that, unless tackled fundamentally and on a long-term basis, will never be solved at all. We believe that, provided we can sell our

goods abroad, in the right markets, there is no insuperable difficulty in our manufacturing enough goods to enable us to pay for all the imports that we need by the end of 1948. The right markets must obviously be those from which we can get an immediate return in the form of essential foodstuffs and raw materials.

This same principle, of course, applies to all the countries in the Sterling Area, since we desire to make the Sterling Area as little dependent as possible upon supplies from the dollar area.

The U.S.A., unfortunately, cannot take enough either of raw materials or manufactured goods from the Sterling Area to anything like balance her capacity to export to that Area. We must therefore, while doing all we can to increase imports into U.S.A. from the Sterling Area, at the same time reduce our imports from the U.S.A.

Development of Africa

We have for a long time talked about the development of Africa, but I do not believe that we have realised how, from the point of view of world economy, that development is absolutely vital. The economies of Western Europe and Tropical Africa are so closely interlocked in mutual trade, in the supply of capital, and in currency systems that their problems of overseas balance are essentially one. Tropical Africa is already contributing much, both in physical supplies of food and raw materials and in quite substantial net earnings of dollars for the Sterling Area pool. The further development of African resources is of the same crucial importance to the rehabilitation and strengthening of Western Europe as the restoration of European productive power is to the future progress and prosperity of Africa. Each needs and is needed by the other. In Africa, indeed, is to be found a great potential for new strength and vigour in the Western European economy, and the stronger that economy becomes the better Africa itself will fare.

It is the urgency of the present situation and the need for the Sterling Group and Western Europe both of them to maintain their economic independence that makes it so essential that we should increase out of all recognition the tempo of African economic development. We must be prepared to change our outlook and our habits of Colonial development, and force the pace so that within the next two to five years we can get a really marked increase of production in coal, minerals, timber, raw materials of all kinds, and foodstuffs, and anything else that will save dollars or will sell in a dollar market.

made by government banks at rates only somewhat lower than market rates. The low interest policy of Central Bank of China has had no effect on price stabilisation; while on one hand government banks' loans are either refused or only paid to privileged groups at low interest, on the other hand the increasing issue of CN\$ supplies the people with ever more redundant money which goes partly to commercial banks allowing them to make loans at high market rates. Particularly in Shanghai the commercial and industrial requirements for loans are fully met from non-government sources and there is usually more money supply than demand (coming from industries, traders and commodity, share, gold and exchange speculation).

HONGKONG STOCK & SHARE MARKET

While sentiment remained good during the week, March 1 to March 5, buyers seemed less inclined to reach up to asked prices. Hence, there was a slight reaction with a sharp shrinkage in volume. Transactions reported totalled 169,864 shares of an approximate value of \$5 millions compared with 263,261 shares valued at \$10½ millions in the preceding week.

Prices closed from steady to firm with some issues standing slightly above the lows reached during the period. Though the general price structure was a shade lower than the previous week, the general trend has not altered. The market's action was considered one of the natural healthy dips in a normal rising market, and had it not been for several issues being quoted ex dividend the decline would have been negligible.

Possibility of Sterling Devaluation.

The feeling regarding the likelihood of devaluation of sterling appeared to have been somewhat mixed among traders for the greater part of the week. Towards the close, however, several Reuters cables bore out the views expressed in our issue of March 3 with, perhaps, greater emphasis. Further, New York traders were showing less confidence in sterling, so much so, that every fresh official British denial induced fresh selling of sterling for forward delivery. Space is limited to dwell exhaustively on this subject in these columns;—suffice it to say that the sum total of all advices point to the inevitability of sterling devaluation. These were partly responsible for the improved tone noticeable at the close of the market, but there appeared to have been insufficient time for operators to digest the full gist of the numerous advices.

Outstanding occurrences during the week strengthening the growing belief about devaluation were:—

1. Exhaustion of Britain's loan from the U.S.A.;
2. Britain's gold sales to America for February amounted £27 millions, in addition to the withdrawal of \$100 millions from the Loan account; and
3. The firmness of South African gold mining shares in spite of the rise in production costs.

The importance of these cited facts cannot be over-emphasised in relation to the question of devaluation. First and foremost they signify that the real gold drain is about to commence, now that the Loan, which was designed to last 3 years, has been exhausted in 19 months. Secondly, the gold outflow cannot be replaced by newly mined gold as fast as the drainage, because the rising costs of production decreases the gold output. To stimulate gold production within the Empire, Britain may have to raise her official buying price.

In financial circles this is regarded as the key to her economic ills, but to

raise her gold price would spell DEVALUATION.

Good Working Results of Local Companies

Apart from the devaluation factor observers predict that many local companies will show better working results for 1948. It seems the full benefit of post war trading profits will not accrue until sometime this year, because of large expenditures for rehabilitation and expansion, which in many cases have not as yet become revenue producing. When all expansion plans contemplated are completed higher annual distributions will become possible, thus further improving the attractive yields at present prices.

The Felix Ellis' price Index showed a decline of 1.19 compared with the close of the previous week, practically wiping out the amount gained in the preceding period. Day-by-day his averages were: Mar. 1, 148.01; Mar. 2, 147.38; Mar. 3, 147.24; Mar. 4, 147.17; Mar. 5, 147.25. The High and Low for 1947 were 155.82 and 123.88 respectively. The low for 1948 was 145.26 on Jan. 14, while the high was 148.68 on Feb. 12.

Company Reports

The Report and Accounts of the HONGKONG & SHANGHAI BANKING CORPORATION for the year ending 31 December 1947 showed a marked improvement over that of the preceding year. We will merely point out the salient features of the accounts, for the full report of the Chairman's speech is published elsewhere in this issue besides being given international publicity as it is one of the most important annual speeches delivered in this Colony. The profit for the year showed an increase of approximately \$7 million, and an additional \$5,173,895 was distributed in dividend. The total dividend distribution for 1947 account was £5 per share, or \$12,934,737 compared with £3 and \$7,760,842 for 1946. After various appropriations the carry forward to 1948 account was \$3,421,361 as against \$1,841,861 the preceding year. The authorized and Excess Note issue increased by about \$200 millions to \$616,142,086.

The FAR EAST AVIATION company's report and accounts reveal a substantial improvement in the company's financial position. It showed a profit for the year ending Dec. 31 1947 of \$511,686 which it is proposed to appropriate as follows: a dividend of \$5 per share absorbing \$124,500, write off War Losses \$195,265 and Transfer to building reserve \$60,000. Fixed Assets and Investments totalled \$247,698, after allowances for depreciation to date, which more or less corresponds to the issued capital. Current Assets exceed current liabilities and balance of loans outstanding by \$198,982. The total issued capital is \$249,000 represented by 24,900 fully paid shares of \$10 each.

Dividends

The VIBRO Piling Co. declared a dividend of 50 cents cash per share

on 32,300 shares, and a Bonus of one share for every share held. The share are \$3 each fully paid. In addition it is proposed to issue another 16,150 shares, presumably in the proportion of one in every two at par. When this is completed the total issued capital will be 80,750 shares of \$3 each fully paid.

CHINA PROVIDENT Loan & Mortgage Co., declared a dividend of 75 cents and a bonus of 65 cents per share, less tax, for the year ending 31st December 1947. This will make a total net distribution of \$1.26 per share as against \$1 only for the year 1946. At current prices the annual yield is therefore 5 %.

FAR EAST AVIATION \$5 per share on 24,900 shares. This is the first dividend declared by the company since its inception, and based on the par value represents a net distribution of 50 %

Business Done

GOVT. LOANS: 4% @ 101, 3½% (1934-1940) @ 99 and par; 3½% 1948 @ par.

HK BANKS @ 2060, 2055 & 2050 ex dividend.

INSURANCES: CANTONS @ 405; UNIONS @ 792½ & 790; UNDERWRITERS @ 8 & 7¼.

DOCKS & GODOWNS: WHARF old @ 175, HK DOCKS @ 34½; SHAI DOCKS @ 26½, 26¼ & 28. CHINA PROVIDENT @ 25½, 25¼, 25½, 25.

MINING: RAUBS were in steady demand together with HK MINES, but only the former registered a sale @ 6¼.

HOTELS AND LANDS: HK HOTEL @ 21, 20¼, 20½ & 20¾; LANDS old @ 89½, 89, 89½, 90½, and new @ 88; SHAI LANDS @ 6½, 6.10, 5¼, 6, 6¼.

UTILITIES: H.K. TRAMS @ 23¼, 23½, 23, 22½, 22¼, 22½, 22, 23, 22.85, 23, 23¼, 23½, 23¾; PEAK TRAMS @ 21¼; STAR FERRY @ 140, 138½ c.u.m. div. and 132 ex div; YAU-MATI FERRY @ 43½, 42½, 43, 43½; CHINA LIGHT old @ 24.30, 24½, 24.35, 24¼, 24, 23¾, 23½, 23¼, 23½, 23¾, and new @ 19¼, 18¾, 19, 18¼, 18½, 18¾, 18½, 18¾, 19; ELECTRIC old @ 53, 54, 53½, 52½, 52½, 52, 53½, 54, 53¾, 53½, 53¾, and new @ 53, 52¼, 52, 52¾, 52½; ELECTRIC ex div @ 52¼, 52½; TELEPHONE old @ 51½, 52, 52¼, 52, 51, 50, 49¾, 49½, 49, 50, 50½, 50¾, and New @ 50½, 51, 48½, 48, 47½, 48, 49, 48½, 49, 49¼.

INDUSTRIALS: CEMENTS old @ 41¼, 41¼, 41½, 41¼, 41, 40¼, 40½, and new @ 38½, 38¾, 38¼, 38, 37¾; ROPES @ 23¼, 23½, 23¾, 23¼, 23½, 23, 23¼. DAIRY FARM ex right @ 66, 65¼, 65½, 65, 64½, 64, 63½, 64, 63¼, and RIGHTS @ 42, 41; WATSON ex rights 54¼, 54½, and Rights @ 29, 29½ & 29.

STORES: LANE CRAWFORD @ 55; SINCERE @ 9½, 9.30; POWELL @ 12.

MISCELLANEOUS: CONSTRUCTION old @ 6½.

COTTONS: EWOS @ 18, 18¼, 18. RUBBERS: TEBONG @ 55 cents.

COMMERCIAL MARKET REPORTS

EXPANSION OF BUSINESS BETWEEN HONGKONG AND JAPAN

Since the resumption of private trading with Japan as from last August 15, trade with Japan has greatly increased and is bound to assume pre-war proportions within another year. Hongkong has been fortunate in grasping quickly and effectively the opportunities offered when SCAP in Tokyo re-opened Japan to foreign trade. The energy and ingenuity displayed by Hongkong's merchants during the initial months of private trading with Japan have

brought good rewards. The active role played by Hongkong Government in the promotion of business between the Colony and Japan cannot be too highly praised; indeed, the entire commercial community of Hongkong has been unanimous in its grateful recognition of Government's good endeavours.

Reintroduction of Private Trade

Prior to limited reintroduction of private trading with Japan all imports and exports had been conducted on a Govt-to-Govt basis, and, in the first instance, were limited to imports of coal from Japan and exports of surplus foodstuffs from Hongkong. This official two-way trade was steadily expanded through the energetic efforts of Hongkong Govt (S.T. & I. Dept.) and an increasing amount of business was conducted by individual merchants through Govt. In June 1947 Hongkong Govt established an office of an Official Agent in Tokyo who acted as liaison authority between the Colony and SCAP (the first Agent was Mr. J. Galvin who was replaced later by Mr D. M. Kenrick, the present Official Agent in Tokyo).

As from August 15th private merchants entered the field and trade was subsequently developed. In the initial stages, imports were made by Government, but this gave way later to a procedure whereby traders obtained their own offers from agents or representatives in Japan and business was being conducted on this basis.

The assistance of Government was confined to the financing of orders through the two-day account (an interim measure until exchange problems could be solved), to approving orders with Japanese Board of Trade and to obtaining S.C.A.P. clearance for exports.

Merchants in the Colony could make direct offers to their representatives and shipment was made upon receipt from Hongkong's Government Agent of S.C.A.P.'s agreement.

A further improvement of trading conditions has now been made possible by the new arrangement between Hongkong and Japan, as outlined in the following article.

Extent of Trade with Japan

Imports from Japan during 1947 amounted to a value of about \$70 million, namely: January to May (the period when imports were classified as Government sponsored imports and were excluded from the Colony's trade

returns) \$26.4 million; June to December (when imports were included in the official trade figures of Hongkong) \$36.6 million, plus about 9,000 tons of coal per month, valued at \$66/70 per ton, amounting to a value of about \$7 to 7½ million for 1947; thus making a total for last year of about \$70 million.

Exports to Japan during 1947 amounted to a value of about \$19½ million, namely: for January to May \$1.2 million for locally mined clay, and about 3 million for canned and other foodstuffs; for June to December \$15.3 million.

The growth of trade with Japan is further emphasised by the January trade returns: imports from Japan \$12½ m., exports to Japan \$2.3 m.

(In our issue of July 23, page 212, the trading position as obtained prior to reintroduction of private commerce was reviewed).

All trade between the Colony and Japan has been carried in British ships.

Following are trade figures since the incorporation of them into the statistics of the Colony's Import & Exports Dept.:—

	Imports	Exports
June	\$3,397,577	\$1,290,250
July	5,068,100	303,580
August	7,130,546	325,117
September ..	4,762,515	1,667,546
October	4,137,250	3,813,911
November ..	8,792,638	4,699,688
December ..	3,318,752	3,146,315

About 38,500 bales of yarn were imported by Government last year, while other major imports were textiles, dye stuffs, tanning material, fuels, paints, building materials, oils and fats, paper and vehicles.

Exports from the Colony consisted mainly of chemicals, drugs, foodstuffs, hardware, nuts and seeds, paper and paperware, liquors and tobacco, textiles, oils and fats, wearing apparel, vehicles, and sundries.

NEW ARRANGEMENT OF TRADING BETWEEN JAPAN & HONGKONG

The Hongkong Government has made the following arrangement for the facilitation of Hongkong's trade with Japan which is outlined in detail below.

The Hongkong & Shanghai Banking Corporation will act as agents for the Government, both in Hongkong and Tokyo, for the examination and forwarding of documents and the receipt or payment of Hongkong currency against such documents.

HONGKONG STOCK EXCHANGE TRANSACTIONS

The total sales of shares at the Stock Exchange amounted to a value of \$5,205,278 for the week ending March 5. The turnover for the preceding three weeks amounted to respectively \$10,135,743; \$5,400,000; and \$4,673,413.

Highest and lowest prices and number of shares sold during the week March 1 to 5:—

Stock	Highest price	Lowest price	No. of Shares sold
H.K. Bank ..	2,060	2,060	93
Union Insur. . .	792½	790	216
Canton Insur. .	405	405	115
Underwriters ..	8	7¾	2,500
Wharves	175	170	212
Docks	34½	34½	400
Providents .. .	25½	25	4,500
Hotels	21	20¼	11,800
Lands, old .. .	90½	89½	550
Lands, new .. .	89½	88	1,133
Humphreys .. .	27½	27½	250
Shai Lands .. .	6½	5½	19,750
Trams	23½	22½	17,400
Peak Trams .. .	21½	21½	200
Star Ferry .. .	140	140	750
Yaumati Ferry .	43½	43	1,100
Electrics, old .	55	53.95	6,865
Electrics, new .	53	51	1,238
Lights, old .. .	24½	23½	25,800
Lights, new .. .	19½	18½	7,935
Telephone, old .	52	49	13,700
Telephone, new .	51	48	7,200
Cements, old ..	41½	40½	7,200
Cements, new ..	38½	37½	2,150
Ropes	23½	23	6,600
Dairy Farm .. .	66	63½	2,300
Dairy Farm, Rts.	42	41	400
Watsons	54½	54½	500
Watsons, Rts. .	39½	39½	1,400
Lane Crawford .	55	55	300
Ewos	18½	18	4,400
Shai Docks .. .	28	26½	2,500

Other sales of shares included:—2,797 Sinceres at \$9.30; 500 Powells at \$12; 1,000 Constructions at \$6.50; 200 Raub Mines at \$6.75. Government loans had sales: 4% loan \$69,000, 3½% loan \$16,500.

The procedure to be adopted is as follows and comes into force March 15, 1948.

Exports to Japan

A merchant wishing to export goods to Japan must obtain a licence from the S. T. & I. Dept. After the goods are shipped the documents should be produced to the S. T. & I. Dept. who will issue an order for payment on the Hongkong & Shanghai Banking Corporation. This order together with the documents should be handed over to the bank who will make payment to the merchant of 90% of the c.i.f. value. The balance will be held by the Hongkong & Shanghai Banking Corporation on behalf of the Government until advice is received from SCAP that they have accepted the goods without claim.

Imports from Japan

A merchant wishing to import goods from Japan must place his order with Boeki Cho (Japan Board of Trade) and, provided this is accepted, apply to the S. T. & I. Dept. for an import licence. (No charge will be made for such licences). On receipt of this licence he must pay 25% margin of the f.o.b. value in Hongkong dollars to the Hongkong & Shanghai Banking Corporation and produce to the bank an open cover insurance policy covering the shipment with an Insurance Company approved by them and with claims payable to the bank. Freight must be arranged by the importer.

On completion of these formalities, the Hongkong & Shanghai Banking Corporation will advise their Tokyo office who will notify the Hongkong Government Agent in Tokyo so that application may be made to SCAP for permission to ship the goods.

On completion of shipping formalities documents will be surrendered to the Hongkong & Shanghai Banking Corporation, Tokyo, for transmission to Hongkong to be handed over to the merchant against payment of the balance of the purchase price. If the permission of SCAP is not obtained the 25% margin will be handed back to the merchant against surrender of the import licence.

Foreign Exchange

Imports from and exports to Japan will continue to be invoiced in U. S. Currency and, on behalf of the Hongkong Government the Hongkong & Shanghai Banking Corporation will pay for exports at HK \$395 per U.S.\$100 and will collect for imports at HK\$402 per U.S.\$100.

Commission

Commission will be charged at 1% on both imports and exports of which the Hongkong & Shanghai Banking Corporation will retain $\frac{1}{4}\%$ to cover their expenses. An additional $\frac{1}{4}\%$ in the case of imports will be collected for passing authorities to Tokyo.

RESUMPTION OF FREE PRIVATE TRADING WITH KOREA

After long drawn-out negotiations between Hongkong and the American Army authorities in Korea (U.S. Army Military Govt in Korea) a satisfactory arrangement for conducting business has last week been concluded when the opening of accounts by the Korean Foreign Exchange Bank Ltd., Seoul, with three banks in Hongkong was approved. The three banks are: Hongkong & Shanghai Banking Corporation, National City Bank of New York, Chase Bank.

Prior to this new arrangement there was only barter trade possible between here and Korea since the Korean Foreign Exchange Bank, established by the American Army and under management of an American banker, only opened foreign accounts with American banks.

From now on barter trade is superfluous and the free flow of trade should be greatly enhanced as all payments between Hongkong and Korea can be made through the accounts of the Korean Foreign Exchange Bank with the Hongkong & Shanghai Banking Corporation.

(The position as obtained last year was outlined in our issue of July 23, Page 220/21).

Import & Export Regulations

Imports are subject to licence while exports to Korea are allowed in the same way as to other non-sterling area countries.

All imports from Korea require the prior permission of the Imports & Exports Dept. The Hongkong & Shanghai Banking Corporation can now open credits to cover approved imports provided that such credits are opened in Hongkong dollars and stipulate that payment will be made to the account of the Korean Foreign Exchange Bank.

Exports to Korea are permitted freely with the exception of prohibited or restricted exports. For the present the Green Form 2A (Export) is required for exports to Korea and should be submitted to the Exchange Control Office for approval before shipment is made.

Commercial Practices in Hongkong

Many importers find it difficult to obtain from dealers bargain money in cash although this is the internationally accepted practice in indent business. There are quite a few importers who, anxious to put a deal through, accept either a smaller amount of bargain money (say, 10% instead of the generally agreed percentage of 25) or certain guarantees from merchants or bankers. Leading importing houses here always insist on a cash deposit of not less than 25% of the c.i.f. value of orders placed.

Although bad experiences have been made last year when a price slump set in by local importers who were not careful as to adequate bargain money when buying on indent commodities abroad, the present outlook for world market prices appears to encourage once again such over-confident importers to contract with dealers without receiving sufficient security. It is obvious that such practices, besides causing concern to the commercial community which is adhering to the generally accepted rules, may easily lead to a new wave of over-trading and commodity speculation.

There are also some importers who allow the payment of interest on dealers' bargain money although

banks in the Colony do not pay interest on deposits (except savings accounts and fixed deposits). This practice is calculated to attract certain dealers.

As regards importers' commissions for indent business, it has been customary since the end of war to charge from 5 to 10% with the exception of metals and capital goods transactions when $2\frac{1}{2}$ to 3% buying commission are charged.

When goods from abroad arrive in Hongkong the dealers usually take delivery without delay and pay the balance at the time of, or even before, delivery. During the short period of tight money last winter there were, however, many defaults and importers were obliged either to store up the imported goods (incurring interest charges from their overdrafts with local banks) until dealers could eventually effect clearance, or to allow dealers to take delivery without fully paying up the balance. During recent weeks when the money position has again turned rather easy there is no difficulty for importers in regard of clearance and payment of the balance before delivery.

Local exporters, in spite of their many efforts to persuade native dealers, cannot yet enforce uniform

delivery terms. When doing business with merchants in the Nampak Hong (native produce markets) exporters usually have to continue with contracts based on quotations "ex dealer's godown," which often do not even include package (as in tung oil where the price of drums has to be added to the price of oil which alone is quoted). Other popular specifications of terms here are "fob lighter," "fob steamer" and, not so frequently, "delivered to exporters' godown." It is the internationally accepted practice for exporters to buy "fob steamer" thus obviating all intermediate charges like transportation from godown to the lighter and lighterage fees. It would be already a step forward if exporters in one particular trade would adhere to uniform delivery terms.

* * * *

SOUTH CHINA IMPORT QUOTAS

The long awaited import quota for the South China area for the fourth quarter, from November 1947 through January 1948, was finally announced in Canton last week by the South China Regional Committee of Export Import Board. This quota amounts to US\$3,437,523 for goods under Schedule 2 and US\$1,448,539 for goods under Schedule 3. The quota will be allocated to 427 registered importers and 509 registered factories.

Of the total for South China, the Canton area will receive US\$1,848,040 for goods under Schedule 2 and US\$160,853 for goods under Schedule 3. Of this amount, registered importers in the Canton area will share US\$1,001,150 and US\$145,853 for Schedule 2 and 3 respectively.

The import quota for South China includes US\$37,963 for newsprint, US\$70,723 for cigarette paper and US\$65,627 for other kind of foreign paper. It is estimated that each registered paper importer in the South South area will receive a quota of US\$1,900.

Following the announcement of import quotas for the 4th quarter, paper merchants in Hongkong held a meeting, drafted and forwarded a petition to the South China Regional Committee, voicing their dissatisfaction over the small quota allocation to foreign paper importers. They pointed

out that before the war, South China on the average imported HK\$1,250,000 worth of foreign paper every month, which equals about HK\$5 million at present taking into consideration the average increase in postwar commodity prices.

CHINA PRODUCE ARRIVALS FROM CANTON

During February only small quantities of China produce arrived in Hongkong from Canton. The official records of the Canton branch office of Government Commodity Testing and Inspection Bureau reveal that only few shipments were made from Canton to Hongkong in February. Actual arrivals, while relatively small, were however considerably larger than the following official figures suggest:

Exports of China produce in February from Canton to Hongkong according to Government Commodity Testing & Inspecting Bureau: (in piculs of 133.33 lbs): Cassia bark 319; Tung oil 18,410; Rapeseed oil 138; Tobacco leaf 61; Tea 533; Silk 5,070; Eggs 90,000; Bristles 239.

* * * *

LOCAL PRODUCE MARKETS

Minerals and ores were hardly transacted during last week; price indications were for 65% wolfram ore \$ 350, Antimony \$ 190, and Yunnan tin \$ 500/510 per picul.

Vegetable oils: Tung oil sold ex dealers' godown from \$ 144-155, Rapeseed oil around \$ 140. Some teaseed oil business was done around \$ 175/180. Malayan Coconut oil remained active at \$ 140. Business in sesame oil is practically nil; price around \$ 245 (all per picul).

Antimony

Reports from mining centres in China go to prove that 1948 shipments will be very small. Before the war Chinese antimony was a major trading article but conditions since the end of war have changed for the worse and buyers abroad, especially in the U.S., discount Chinese supplies. Antimony from Mexico, the U.S. and Bolivia is now supplying principal industrial requirements in America which are estimated for 1948 as over 14,000 tons. A previous estimate of Chinese supplies during 1948 of some 4,000 tons of antimony has been revised and it appears an optimistic appraisal of the situation if the U.S. will be able to buy 1,000 tons of antimony during the next twelve months from Chinese mines.

Tin

There is increasing hope among Malayan tin mining interests that a further increase in tin prices will be announced some time this Spring. The position of tin in the British Empire is studied by the Ministry of

Supply in London with a view to reconcile the interests of miners and the consuming industry. Last Dec. 19 the Ministry raised the price of tin from £ 423 (US\$ 1,692) per ton to £ 500 (US\$ 2,000) but there is much evidence that mining cannot be continued profitably at this new price. Hongkong dealers have, already last year, started to hoard Yunnan tin and seem to be confident that eventually they will be able to make a profit although meanwhile their funds are tied up.

Hainan Iron Ore for Japan

One of the Colony's wellknown trading firms, Messrs. E. Ott & Company Ltd., recently concluded a contract through the Central Trust of China with the Chinese Government-operated National Resources Commission for the purchase of 250,000 tons of iron ore from Hainan Island which has been sold to Japan for stepping up her steel production.

The shipment of 250,000 tons of ore from Yulin Harbour in Hainan Island to Japan is expected to be completed by May. The first shipment of 8,000 tons has arrived at the Japanese port of Yawata in mid-February carried by the Chinese steamer, "Hai Ti." The second shipment of 4,000 tons left Hainan Island but has not yet reached the Japanese port of Kobe, as the Chinese ship "Kien Hsing," in whose holds are the 4,000 tons, went aground last week near Chilang Point not far from Hongkong.

The transport of Hainan's iron ore is undertaken by Chinese vessels under a contract signed by the Ott Company and four Chinese shipping firms, namely: the China Merchants Steam Navigation Company, the E-Hsiang

Shipping Company, the Chung Hsing Shipping Company and the Chinese Maritime Trust. The full shipping schedule as mapped out by the shipping concerns provides for eight sailings in March when 60,000 tons of iron ore will be shipped to Japan.

Final agreement on the transportation of iron ore came through after many arguments between Chinese shipping circles and the Ott Company over the question of freight charges and other technical aspects of the deal. The Ott Company, a Swiss enterprise, originally stipulated in the purchase contract with the NRC that the ore would be hauled from Yulin to Japan in British ships. When the transaction was concluded between NRC and the local firm through Central Trust, Chinese shipping circles in Shanghai strongly objected to British vessels being allowed to transport Chinese iron ore contending that Yulin is a harbor allowed to transport Chinese iron Eventually Chinese ships had to be given preference.

The agreement provides that the Ott Company is to charter Chinese vessels for the transportation of the iron ore at the rate of HK\$33 per ton.

HONGKONG IMPORTS & EXPORTS OF SELECTED COMMODITIES FOR THE MONTH OF JANUARY, 1948.

Wolfram Ore

Countries	Imports		Exports	
	Piculs	\$	Piculs	\$
U.K.	—	—	420	139456
China	—	—	50	28500
Korea	289	85000	—	—
Macao	487	143410	—	—
Sweden	—	—	168	67200
U. S. A.	—	—	550	196221
U. S. S. R.	—	—	8472	2735597
Total	776	228410	9472	3166974

Antimony

No imports recorded. Export:—
U.S.A. 2,480 Piculs, \$338,105.

Tin ingots of Chinese origin

Countries	Imports		Exports	
	Piculs	\$	Piculs	\$
U.K.	—	—	252	126000
China	1891	806000	—	—
Macao	252	120028	—	—
S. America	—	—	504	255360
U.S.A.	—	—	327	143943
Total	2143	926028	1083	525303

Tin ingots, not elsewhere stated

N I L

Tinplates

Countries	Imports		Exports	
	Piculs	\$	Piculs	\$
U.K.	2352	164899	—	—
N. China	—	—	2979	99873
S. China	—	—	475	40210
Macao	—	—	14	420
Siam	—	—	503	45000
U.S.A.	9873	483332	—	—
Total	12225	648231	3971	185503

Aniseed Oil

Countries	Imports		Exports	
	Piculs	\$	Piculs	\$
U.K.	—	—	114	61225
Australia	—	—	13	7308
S. China	507	248125	—	—
France	—	—	164	87381
Macao	167	83590	—	—
Total	674	331715	291	155914

Cassia Oil

Countries	Imports		Exports	
	Piculs	\$	Piculs	\$
U.K.	—	—	22	26660
Australia	—	—	1	646
Ceylon	5	2000	—	—
S. China	33	17400	—	—
Macao	119	112388	—	—
U. S. A.	—	—	64	72449
Total	157	131788	87	99755

Cocoa nut Oil

Countries	Imports		Exports	
	Piculs	\$	Piculs	\$
Malaya	21324	2578985	—	—
N. Borneo	30	3600	—	—
S. Africa	—	—	1168	155290
Belgium	—	—	4200	546000
N. China	—	—	1147	153401
M. China	—	—	77	10230
Egypt	—	—	1898	215500
Holland	—	—	252	32760
Japan	—	—	554	60412
Macao	—	—	30	3340
Siam	91	11830	—	—
S. America	—	—	3878	472187
Switzerland	—	—	6652	838244
U.S.A.	—	—	10080	1239120
Total	21445	2594415	29936	3726484

Tea Seed Oil

Countries	Imports		Exports	
	Piculs	\$	Piculs	\$
Malaya	—	—	3	140
Macao	1082	99150	—	—
U.S.A.	—	—	461	69721
Total	1082	99150	464	69861

Wood Oil (in drums).

Countries	Imports		Exports	
	Piculs	\$	Piculs	\$
U.K.	—	—	5030	779458
Australia	—	—	4575	707242
Burma	302	41400	—	—
India	—	—	328	56900
Malaya	—	—	90	13043
New Zealand	—	—	983	152009
N. Borneo	—	—	20	2950
B.E. Other	—	—	336	51072
Belgium	—	—	150	20932
S. China	51811	6190746	—	—
Italy	—	—	62	9300
Macao	1315	68690	—	—
Norway	—	—	1450	208223
Sweden	—	—	168	25000
U.S.A.	—	—	1786	264662
Total	53428	6300836	14978	2290791

Wood Oil (in bulk)

Countries	Imports		Exports	
	Piculs	\$	Piculs	\$
U.K.	—	—	15372	2276591
N. China	2140	307356	—	—
S. China	5852	726748	—	—
Holland	—	—	3024	450000
U.S.A.	—	—	43014	5628584
Total	7992	1034104	61410	8355175

Other oils from seeds, nuts & kernels (mainly Rapeseed oil)

Countries	Imports		Exports	
	Piculs	\$	Piculs	\$
U.K.	—	—	13155	1781335
Australia	—	—	17	2100
Malaya	840	104160	1	650
N. China	337	43842	—	—
S. China	16609	2113845	—	—
Holland	—	—	1680	268800
Macao	5881	715062	2	254
Philippines	496	50090	12	2326
Siam	—	—	12	2326
Switzerland	—	—	11760	1610000
Total	24163	3026999	26627	3665465

INDUSTRIAL REVIEW

HONGKONG INDUSTRIAL REPORT FOR FEBRUARY

Factories Operating in Hongkong

By the end of February the Colony had 921 registered factories and workshops in operation, in which were employed some 65,000 male and female workers. In the month the Labour authorities granted 19 registration certificates to new industrial establishments after thorough inspection of the plants and a careful study of their propositions.

In the same month another 19 factories and workshops submitted applications for registration. These applications together with previous ones submitted earlier are now being screened by the Labour authorities. Of the 19 new applications filed in February, three factories are situated on the island and the other 16 on the Mainland. They include:— 4 metal ware workshops, each two weaving and knitting factories, each one of the following industries: kerosene refinery, rubber wares, tannery, brick works, canned goods, glass, buttons, matches, tyre (retreading), enamel ware and electric plating.

The number of applications for registration received by the Labour Office up to Feb. 29 was 1,348, of which 128 had since been cancelled, thus leaving 1,220 applications being either granted registration or being now under investigation by the Inspector of Factories.

Previously it was stated that there were more than 1,200 registered factories and workshops operating here. The figure of 1,220 represents, however, the number of applications for registration by the end of February, of which only 921 had thus far been granted registration. Of these 921 registered industrial establishments, 238 are located in Hongkong and the other 683 in Kowloon.

Ginger Industry

After last year's difficult trading due to import restrictions in buying countries, the Colony's oldest industry—preserved ginger—has now been gradually improving its business. The 11 ginger factories here have increased by the end of February their total labour force to a little over 1,000 from 700 as at the end of last year.

In the past two months of 1948, the combined value of exports of these 11 factories totalled more than \$1.5 million, or nearly 40 percent of the total exports for the whole last year. Last year's exports amounted to \$4 million, of which three-quarters went to the United Kingdom and one-tenth to the United States.

The ginger industry is expected to improve further as Mr. U. Tat-chee, Managing Director of Hongkong Preserved Ginger Distributors Ltd., being the official organisation which organises the export sales of these 11 ginger factories, will soon visit the United States, the United Kingdom and other European countries to make a survey there and to intensify the sales of preserved ginger abroad.

The ceiling price for preserved ginger has recently been revised by the British Board of Trade as follows: stem ginger 195/- per 112 lbs; cargo ginger 166/- and medium ginger 140/-, c.i.f. UK ports. The present price is still, however, about three times the prewar quotation.

This increase in price was necessitated by the high cost of production, which went up even more in proportion to the increase in the sales price.

The present cost of production when compared with prewar days is: labour 10 times, raw ginger and sugar 5 times, fuel 4 times and shipping charges 15 times.

Textile Industry

Owing to the shortage of cotton yarn supplies, a number of large cotton cloth weaving factories could not complete their substantial orders in February, while many small weavers received no orders in the month. On the whole, some 80 percent of the Colony's weaving factories continued operation in February.

To solve the shortage of cotton yarn supplies, Mr. J. J. Cowperthwaite, Acting Director of the Department of Supplies, Trade and Industry, and Mr. J. Galvin left for Shanghai last week to conduct negotiations with the Chinese Government owned and operated China Cotton Textile Corporation for the immediate shipment of several thousand bales of undelivered cotton yarn.

Before leaving for Shanghai, Mr. Galvin disclosed to the Hongkong Chinese Cotton Cloth Manufacturers Association that Japan has offered 250 million yards of cheap quality cotton cloth for sale in Malaya. Should this offer be accepted by Malayan merchants, Hongkong's cotton cloth weaving industry may receive a serious blow.

The hosiery mills reported full production for last month with heavy orders for cotton socks being on their books and prospects for continued capacity business very encouraging.

Miscellaneous Industries

The Paint and Varnish factories, as throughout 1947, were again enjoying fulltime working. Foreign demand for locally made torch lights and electric bulbs continues brisk. Over 10,000 doz. of hand torches were exported to Siam and South Africa. Hurricane lamps and lanterns are finding still increasing markets.

In the rubber canvas shoes industry has not occurred any change for

Bristles

Countries	Imports		Exports	
	Piculs	\$	Piculs	\$
U.K.	—	—	601	770346
Belgium	—	—	22	16720
S. China	781	646366	—	—
France	—	—	50	66350
Macao	28	16490	—	—
Siam	—	—	2	3000
U.S.A.	—	—	410	535220
Total	809	662856	1085	1391636

Rubber (Raw)

Countries	Imports		Exports	
	Piculs	\$	Piculs	\$
Ceylon	17	1868	—	—
Malaya	4080	395898	—	—
N. Borneo	170	6827	—	—
N. China	—	—	879	95400
M. China	—	—	368	33681
S. China	—	—	4282	373720
Indochina	13941	1018931	—	—
Macao	75	3500	115	8800
N.E. Indies	3780	378000	—	—
U.S.A.	—	—	1254	84200
Total	22063	1805024	6898	595801

the better as far as the Philippine market is concerned. Rubber goods, especially toys, have now advanced to an important production item of the local rubber shoes industry. The smaller factories were operating on reduced scale only. Two large factories were producing at full capacity as big orders for farm boots and Wellington type footwear had been obtained.

Towards the end of last month Japanese waterproof rubber shoes made an appearance on the local market for the first time since the end of war. The shipment was sold at \$26 per dozen pairs immediately after the samples were placed on the market. There cannot be any doubt that the reception of Japanese merchandise here is favourable.

* * * *

Hongkong's Principal Industrial Products

From the list of workers employed in Hongkong's over 1,200 factories, published on page 242 in today's Review, the great variety of industrial production in the Colony will be seen. Principal export products of Hongkong factories, which were already acknowledged as of high quality in pre-war years, are the following: rubber shoes; torches, torch bulbs, batteries; sewing needles; hurricane lamps; wire nails; hardware (locks and hinges, pots and pans); piece goods (cotton, cotton and art silk); soft goods of all kinds (singlets, vests, underpants, sport shirts; garments (shirts, pyjamas, collars), hand-knitted gloves; hats, helmets; cloth umbrellas; leather goods (belts, shoes, boots, wallets, handbags); seagrass, rattan ware, rattan furniture, camphorwood chests; matches, mother-of-pearl and dobu bottoms; toys; rope; paints; ginger (preserved and cargo), ginger in bime; canned goods of great variety; vacuum flasks; electrical accessories; firecrackers.

The remarkably fast expansion of local industrial production has added a number of new and very useful manufactures which are, however, at present not so well known abroad due to the recent establishment of such factories.

REVIEW OF COTTON TEXTILE, RUBBER FOOTWEAR AND GINGER INDUSTRIES IN 1947

In its annual report the Hong Kong General Chamber of Commerce reviews the progress of three important local industrial groups as follows:—

COTTON TEXTILE INDUSTRY

Although supplies of yarn increased considerably during 1947, textile production in the Colony was restricted for the major part of the year due to the comparatively high cost of imported yarns from China and Japan and competition from Japanese manufactured textiles, which were suddenly released on Far Eastern markets.

In the last quarter of the year, however, these curbing factors were eliminated when, at a time when world costs were rising and local costs declining, it was announced that all textiles from Japan could only be bought in exchange for U.S. Dollars.

Output increased, and whereas earlier exports had, for the main part, been confined to South East Asia, there was now a substantial volume of trade to the African Continent as well as to new markets, notably in the Middle East.

It is estimated that, during 1947, the industry consumed 20,000,000 lbs. of yarn—equivalent to about 80,000,000 yards of cloth. Some concern is felt however, about future supplies of yarn as present stocks are almost exhausted.

Since the re-occupation, textile production in Hong Kong has been severely hampered by the world shortage of yarn. Factories have had to rely solely on imported supplies often at prices higher than general world levels.

Steps have now been taken, however, to eliminate this "bottle neck" and two spinning mills with a total of 15,000 spindles, have been established and are expected to be operating shortly, while plans have been laid for the construction of two others of 15,000 and 20,000 spindles capacity.

It is expected that by the middle of 1948, when three of the four mills are fully functioning, they will be able to produce about 2,500 bales of 20 count yarn per month—about half the present local requirement.

Providing certain geographical and local difficulties can be overcome, it is thought that the establishment of these mills will do much to place the Colony's textile industry on a sounder and more economic footing.

RUBBER CANVAS FOOTWEAR

The year 1947 was somewhat better for the local rubber industry due to a reduction in manufacturing costs as compared with those prevailing during 1946.

Orders for the local market continued to be steady while the large factories were compensated to some extent for the absence of orders for footwear by orders for other rubber products, chiefly, bicycle tyres and tubes, most of which were exported to nearby markets. At least three of the pre-war factories received orders for several million pairs of rubber shoes for the Chinese Army, despite exchange difficulties due to the slide in the C.N. Dollar.

Early in the year, Mr. W. M. Thomson, Director of the Department of Supplies, Trade and Industry, held consultations in London with the Association of Hong Kong Rubber Footwear Importers, the Colonial Office and the Board of Trade. As a result of these discussions, a telegram was received by the Association of Exporters in Hong Kong asking for details of the quantity of shoes which could be supplied manufactured with canvas wholly produced in the United Kingdom. In August, exporters were informed of the maximum prices buyers could pay under the U.K. Price Control Order and after considerable negotiations, despite the sharp rise in the costs of both rubber and canvas, it was decided to accept the prices offered and towards the end of the year orders were booked for approximately two-and-a-half million pairs.

Although exporters were informed that import licences had been issued to their London buyers, certain difficulties arose with regard to Imperial Preference requirements. The latest instructions issued by H.M. Customs call for factory costings and include several additional requirements. The Authorities have also stated that they wish to examine and approve these costings prior to shipment being made.

It will be recalled that, for about three years before the Pacific War, Hong Kong shoes were recognised by H. M. Customs as qualifying for entry at Imperial Preference rates, provided that a supporting certificate, issued by authorised accountants, was presented certifying that the shoes were made from rubber of Empire growth and canvas wholly produced in the United Kingdom. It is the contention of local manufacturers and merchants that these conditions still apply and at the end of the year negotiations were in progress between the Chairman of the Hong Kong Rubber Manufacturers' Association and Government with a view to persuading H. M. Customs to dispense with factory costings, even as a temporary measure, to ensure that this business is not set back further.

PRESERVED GINGER

Early in 1947, 2,970 casks, each containing two hundredweight, were shipped at the following agreed prices c.i.f. U. K. ports:—

"Stem" 300/- per cwt; "Cargo" 240/-; "Medium" 190/-.

The above shipments did not represent more than a fraction of the pre-war exports to the London market, and negotiations were continued with the result that, during July, the United Kingdom authorities agreed to further shipments to a total of 3,204 cases being made at prices somewhat lower than those mentioned above, and this quota was immediately taken up.

When the new crop ginger came along, there was a sharp fall in the costs of production, largely due to the exchange rate prevailing for the C.N. Dollar at that time, and prices were quoted 30 per cent. below the ceilings set by the Ministry of Food in London.

The industry was fortunate in that Mr. W. M. Thomson, S. T. & I. Director, was on leave in London at the time these new prices were quoted as, with them in his possession, he was successful in persuading the Ministry of Food to authorise further shipments of up to five thousand cases, which were made during November/December.

INDUSTRIAL LABOUR OF HONGKONG

The total number of labourers employed in government registered factories and workshops as at the end of last year was 64,499, of which 40,840 workers or 63 percent are males and 23,659 or 37 percent are females. This does not include the number of workers employed in factories and workshops which are not required to register with the government since they employ less than 20 labourers each, and also does not include workers employed in unregistered factories.

The fourth quarter's labour force returns for 1947 showed an increase of 5,432 workers, or 9.2 percent over the figures registered at the end of the third quarter (59,076 workers as at Sept. 30, 1947).

The Colony's largest employers, by units, are: shipbuilding and repairing industry with 18,274 workers, or nearly 30 percent of the registered labour force;—textile industry with 12,498 labourers;—paper and printing with 3,803 workers;—rubber ware industry with 3,348 workers; and clothing industry with 1,563 workers.

Among the industries which recorded increases in the number of workers employed at the end of last year compared with that recorded at the end of September are:—textile industry increased by 6,294 workers; ship building and repairing by 2,373; paper and printing by 913; food, drinks and tobacco by 726; chemicals and paints by 632; metal industries by 433; glass

Some complaints were received from buyers of the earlier shipments that there had been faulty packing, and that appreciable numbers of casks had leaked, with a resultant loss of syrup. Remedial measures were taken at once by the Ginger Association, and better quality imported staves and hoop-iron was used in the manufacture of casks, which, together with an improved method of packing, resulted in a considerably improved out-turn of the later shipments on arrival in the United Kingdom.

The following figures provided by the Hong Kong Preserved Ginger Distributors, Ltd. show the sales made through that organisation during 1947:—

Destination:	Weight:	Value:
United Kingdom	1112.8 tons	\$3,206,484
United States of		
America	8.8 tons	35,682
South Africa6 tons	2,315
Other Countries	690 cases	51,490

Sales made by various factories other than through the Preserved Ginger Distributors Ltd., amounted to a value of approximately \$680,000 bringing the total exports for 1947 up to nearly \$4,000,000—a gratifying result of two years persistent efforts to re-establish one of the Colony's oldest industries.

and glass bottles by 299; bricks, tile and pipe by 107; wood working by 60; and engineering by 58.

Those which registered decreases are: clothing industry decreased by 4,758 workers; other manufacturing industries by 389; non-manufacturing industries by 338; construction and repair of vehicles by 113; and leather, leather goods and fur by 16.

FOLLOWING IS THE LIST OF HONGKONG'S INDUSTRIAL ESTABLISHMENTS—CONSISTING OF 3 GROUPS AND 18 SUB-GROUPS—WITH THE NUMBER OF MALE AND FEMALE WORKERS FOR GROUPS AND SUB-GROUPS:—

GROUP I (METAL & CHEMICAL INDUSTRIES):

Engineering:

	Male	Female
General Engineering:		
Engineering	980	17
Electric Engineering:		
Radio Sets (Repairing & Maintenance)	9	10
Total Engineering	989	27

Construction & Repair of Vehicles:

Motor Vehicles, Cycles & Aircraft		
Garage	40	—
Total Vehicles	40	—

Shipbuilding & Ship Repairing:

Shipbuilders	17,502	772
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Other Metal Industries:

Stove, Pipe etc. & General Iron-founding:		
Foundry	431	20
Electric Apparatus		
Cables etc:		
Electric Bulbs	161	270
Electric Plating	252	77
Other Metal Industries:		
Metal Wares	1,721	1,772
Silver Refinery	8	—
Tin Cans	270	161
Needles	143	142
Wolfram Ore Refinery	17	—
Total Other Metals	3,003	2,442

Chemicals, Paints, Oils etc:

Chemicals:		
Chemicals	39	17
Zinc Powder	1	—
Manganese	62	15
Dye Stuffs	23	8
Medicines	100	244
Paint, Varnish etc:		
Paint	160	121
Oil, Glue, Soap, Ink etc:		
Camphor (Oil & Powder)	13	—
Peppermint Oil	3	—
Soap	38	48
Oil Installation	737	96
Total Chemicals ..	1,176	549

TOTAL: GROUP I INDUSTRIES	22,710	3,790
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GROUP II (BASIC INDUSTRIES):—

Public Utilities	2,797	119
(Electric Light, Gas works, Tramways, Telephone).		

GROUP III. (OTHER MANUFACTURING INDUSTRIES & SERVICES):—

Food, Drink and Tobacco.

Grain Milling:		
Flour and Rice Mills	225	13
Bread, Biscuits etc:		
Biscuits & Confectionery	363	283
Other Food Industries:		
Noodles	8	2
Bean curd	69	9
Canned Goods	120	75
Peanut Oil	164	10
Cassia Sorting	83	304
Gourmet Powder	116	46
Soy and Sauce	308	117
Sugar	22	—

Ginger & Fruits (Preserved)	349	388	Wood Boxes & Cases etc:			Twine	14	21
Meat (Dried)	31	1	Camphor Wood			Enamel Wares	255	69
Ice	49	1	Trunks	223	1	Rope Works	95	25
Cold Storage	281	2	Total: Woodwork-			Cork	5	10
Drink Industries:			ing	557	2	Total: Other Manu-		
Aerated Water	179	17				facturing Indus-		
Beverages	8	—	Paper, Printing etc:			tries	3,506	6,283
Distillery	90	58				TOTAL: GROUP III		
Tobacco, Cigarettes etc:						MANUFACTURING		
Tobacco	342	965				INDUSTRIES	15,098	19,712
Total: Food, Drink			Paper & Paper Board:			GROUP IIIA (NON-MANUFACTUR-		
& Tobacco	2,807	2,291	Paper (Dyeing)	88	27	ING INDUSTRIES AND SERVICES)		
			Paper Cards	47	59	Laundry & Drycleaning:		
Textile Industries:			Cardboard Boxes, Paper			Laundry	200	25
			Bags etc:			Miscellaneous:		
			Paper Boxes	18	7	Bone Grinding, Mar-		
			Stationery Requisites			ble Work, Jam		
			(Not Paper):			Making	35	13
			Pencils	13	77	TOTAL: GROUP III		
			Printing Ink	6	—	& IIIA:	15,333	19,750
			Printing, Publishing &			GRAND TOTAL OF		
			Book-binding etc:			GROUPS I, II, III &		
			Printing	2,066	776	IIIA:	40,840	23,659
			Types	12	2			
			Newspaper	593	12			
			Total: Paper.					
			Printing	2,843	960			
			Brick, Tile, Pipe etc:					
			Brick Works	235	71			
			Cement Tiles	14	3			
			Total: Brick, Tiles	249	74			
			Glass & Glass Bottles:					
			Glass Manufacture:					
			Glass	545	90			
			Mirrors	69	12			
			Glass Bottles:					
			Vacuum Flasks	164	110			
			Total: Glass	778	212			
			Other Manufacturing Industries:					
			Cement, Whiting etc:					
			Cement Works	238	17			
			Gypsum Powder	5	—			
			Rubber:					
			Rubber Tyre	14	—			
			Rubber Tyre Soles	45	—			
			Rubber Wares	1,182	2,366			
			Brushes & Brooms:					
			Tooth Brushes	50	24			
			Toys and Games:					
			Toys	8	60			
			Other Industries:					
			Building Materials	2	—			
			Battery	131	266			
			Bakelite Wares	107	165			
			Carbon	6	—			
			Crackers	6	10			
			Torches	652	1,837			
			Fishing Net	10	30			
			Ivory	12	—			
			Matches	270	679			
			Joss Sticks	18	178			
			Feather	90	285			
			Face Powder	24	8			
			Mosquito Sticks	18	32			
			Perfumery	56	151			
			Rattan	193	50			

Cotton Spinning:	Male	Female	Cotton Mill	57	87	Cotton Weaving:		
Cotton	22	7	Thread	36	55	Cotton	22	7
Thread	36	55	Tapes	8	10	Shoe Laces	16	53
Tapes	8	10	Shoe Laces	16	53	Weaving (Cotton)	1,553	4,476
Shoe Laces	16	53	Weaving (Cotton)	1,553	4,476	Knitting	1,454	3,774
Weaving (Cotton)	1,553	4,476	Knitting	1,454	3,774	Silk, Rayon, Nylon etc:		
Knitting	1,454	3,774	Silk, Rayon, Nylon etc:			Weaving (Silk)	128	192
Silk, Rayon, Nylon etc:			Weaving (Silk)	128	192	Hosiery:		
Weaving (Silk)	128	192	Hosiery:			Hosiery	28	156
Hosiery:			Hosiery	28	156	Hemp, Rope, Cord etc:		
Hosiery	28	156	Hemp, Rope, Cord etc:			Grass Mats	16	6
Hemp, Rope, Cord etc:			Grass Mats	16	6	Gunny Bags	22	—
Grass Mats	16	6	Gunny Bags	22	—	Other Textiles:		
Gunny Bags	22	—	Other Textiles:			Cloth (Calendering)	85	85
Other Textiles:			Cloth (Calendering)	85	85	Textile Bleaching, Dye-		
Cloth (Calendering)	85	85	Textile Bleaching, Dye-			ing etc:		
Textile Bleaching, Dye-			ing etc:			Dyeing	169	8
ing etc:			Dyeing	169	8	Total: Textile	3,594	8,909
Dyeing	169	8	Total: Textile	3,594	8,909	Leather, Leather Goods & Fur:		
Total: Textile	3,594	8,909	Leather, Leather Goods & Fur:					
Leather, Leather Goods & Fur:								

lic press and can produce forgings up to 15 tons weight. Iron and non-ferrous castings are produced at the Dockyard, the maximum casting being 25 tons.

During 1947, 290 ships were repaired at the Dockyard of total gross tonnage of 844,000. The tonnage of shipping docked during the year was 560,000 gross tons. In addition to ships repaired at the Dockyard, a large number of ships were repaired in the harbour. A great deal of reconstruction work has been completed, and the Dockyard is now almost back to pre-war capacity. Construction of new tonnage has, so far, been limited to small craft, but in the near future will commence the building of larger ships.

During the reconstruction an opportunity is being taken to thoroughly modernise equipment and many new machines have been installed while others are on order.

HONGKONG & WHAMPOA DOCKS

This Company operates three yards, two on the Kowloon Peninsula at Hung Hom and Yaumati, and the Hope Dock at Aberdeen.

The main establishment at Hung Hom has a sea frontage of some 3,000 feet, three dry docks and three slipways, together with building berths for ships up to 700 feet long. The largest dry dock is 692 feet long and 88 feet wide at the bottom of the entrance. It has a depth of water on the keel blocks of 28 feet 6 inches at ordinary spring tides.

359 ships of a total tonnage of 571,166 were dry-docked during 1947, and a further 264 ships were repaired alongside the Company's wharves or in the harbour.

A water-boat and some smaller wooden craft have been built during the year, but no major building work has been possible owing to the steel shortage.

BAILEY'S DOCKYARD.

This yard established over 50 years ago is equipped with three electrically operated slipways able to take vessels up to 1,000 tons at any state of the tide. The yard undertakes most types of construction, repair work, weldings, castings and forgings.

During 1947 it was engaged to full capacity with repair work and over 100 vessels have been slipped. Two of the largest contracts undertaken during the year were the conversion of an ex-Customs cruiser into the passenger river vessel "Tai Ping", and the repair of the s.s. "Kwei Hai."

New construction has been severely restricted by the shortage of steel, but the company has undertaken the assembly of two steel dredgers and four hopper barges from sections supplied by the Ministry of Transport.

THE WOOL-REMOVING INDUSTRY OF MAZAMET IN FRANCE

(By A French Contributor)

From an economical point of view, Mazamet presents a well marked character, which is responsible for this author's remark: "an American town in the middle of the Languedoc province."

First it is the centre of an industry which is, so to speak, its monopoly: "Delainage" (Wool-removing).

It was in 1851 that the pioneers, of that industry first ordered a sample of two bales of sheepskins from Buenos-Ayres. Then, in 1871, the first wool-removing works were launched. Nineteen were in activity in 1875, and seventy in 1938. Corresponding to this numerical increase of the works, their equipment was considerably improved in order to obtain a better output while maintaining the quality of both wool and skin.

Thanks to its progressive technique, to the ability of its executives and to the efficiency of its labour, Mazamet has created a very specialised industry which is not in the way of being equalled.

Side by side with such an industrial organisation works a commercial body just as highly specialised. Active and experienced Mazamet people have emigrated to sheep-rearing countries: Argentine, Australia, South Africa, North Africa. They have set up buying agencies and depots which keep the Mazamet wool-removing industry well supplied. Moreover, the brokers have agents all over the world for the sale of the wool and the skins.

To this selling organisation, a conditioning concern (*Conditionnement*) was adjoined in 1900, for the inspection and conditioning, of wool (hygrometry, weighing, etc.....) thus offering every guarantee to the buyers.

In order to give an idea of the importance of wool-removing, let us point out that, between 1922 and 1938, Mazamet received some 60,000 tons of sheepskins yearly.

Apart from that main industry, other activities are strongly represented in Mazamet.

(1) The tanning-industry, working chiefly on sheep slats obtained by the wool-removing industry, and also on goatskins. 40 factories are working, and 2,500 tons of sheep leather were produced in 1938.

(2) The textile industry: the oldest in Mazamet, and always active. Before 1938 Mazamet and Labastide-Rouairoux manufactured from 2 to 3,000 tons of textiles yearly.

The bulk of those activities represented a turnover of 1,300 million francs in 1928. We leave it to the reader to appreciate those figures in present franc value.

Mazamet's industry, living on imports, was completely brought to a standstill during the war. The revival of international trade will give it an opportunity, progressively to regain the trade balance of France. It is, in fact, important to stress the point that Mazamet was, before this war, exporting in value more than it was importing, despite the fact that a good share of its production was kept for the home market.

The Wool-Removing Process

We think it useful to explain what "delainage" is, and why it is a monopoly for Mazamet, where it was born.

Until the discovery of "delainage" a l'echauffe," the only process known for removing the wool from the skin was that one known in France as "delainage au procede" (by use of a lime solution), a system common in the tanning industry.

But, by the method "au procede" the wool was damaged. The Mazamet wool-removing industry having for essential object the production of wool, it was therefore necessary to find a new process by which the wool could be removed from the skins without being spoiled.

From that idea was born "delainage a l'echauffe."

The aim of "delainage a l'echauffe" is the destruction of the animal cement fixing the root of the wool in its sheath into the skin. That destruction is carried out by bacteria called (French) "bacterie piline." In the normal state of the skin, those bacteria, living in the animal cement, are quite harmless. But in a state of fermentation of the skin, those bacteria grow in number and activity and attack the cement. In order to provoke that fermentation the skins are hung in closed cells, wet and warm. After several days the wool can be removed easily from the skin.

"Delainage a l'echauffe" consists in the following principal operations:

Trempe (soaking).—Exotic skins, arriving dried, pressed in bales, have to regain their natural moisture before they can go through the wool-removing process. They have to be soaked during several days in water tanks.

Sabrage.—Operation for cleaning the skin of foreign matter: thorns, straws, mud, etc.; and also of the soluble grease (the insoluble part of the grease necessitating later a further washing after the wool has been removed).

Originally that action was performed by striking the skin, while hanging, by means of a metallic rod, shaped like a sabre, whence the name of sabrage. Since, a machine has been devised for the performance of that operation.

OUTLOOK FOR BUSINESS WITH INDOCHINA

The following article has been written by H.M. Consul General at Saigon for the British Board of Trade Journal and reviews trading conditions in Indochina. A recent summary of general conditions in our southern neighbour's country, political, commercial and industrial, appeared in our issue of Jan. 14, pp. 43 ff., while Indochina's trade regulations were in our issue of Jan. 21, p. 58.

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The devastation of war and the internal strife which followed the Japanese occupation of Indo-China have severely undermined the economic structure of the country. The great destruction caused by Allied bombing during the war has been aggravated by the ravages of a bitter revolutionary war which has flared up spasmodically ever since the Japanese surrender, and whereas before the war French Indo-China had a very favourable trade balance, the position has now been totally reversed, and the foreign trade of the country (excluding Annam and Tonkin) showed a deficit of approximately 330,000 pounds sterling for the first nine months of 1947.

There has been a general decline in exports and at the same time inflation. In 1938 the note circulation stood at one hundred and eighty-three million, as compared with two thousand million

in 1946. Hand in hand with this inflation, the cost-of-living indices have risen from 100 in 1939 to approximately 1,600 in 1947.

Exports and Imports

Prior to the war Indo-China depended principally on its rice exports to maintain a favourable balance of trade, and in 1939 rice exports amounted to more than one and a half million tons. Exports of rice for 1947 are not expected to reach more than sixty thousand tons, which alone gives a clear indication of the effect of the internal strife on the economic situation of the country.

The other main exports from Indo-China consisted of maize, and important quantities of rubber, coal, dried fish, cement, etc., but as already indicated production has seriously declined owing to the uncertain conditions prevailing up-country. Moreover, owing to the difficulties of transport, only very small quantities of paddy, rubber, etc., for export, are now reaching Saigon (at present the only port of Indo-China engaged in active trading).

Some of the coal mines in Tonkin which come under the control of the French resumed production early in 1947, and the output now amounts to between twenty and thirty thousand tons a month, which is barely sufficient for local consumption.

The output of the cement factory at Haiphong has gradually increased to six thousand tons a month, and if this level can be maintained there will be a certain amount available for export in the immediate future. The output of both coal and cement is severely handicapped by the extreme shortage of labour in the Tonkin area.

Even before the war, 56 per cent. of the goods imported into Indo-China came from France, or from other territories within the French Union. Seven per cent. came from the United States, the next important source of supply, whilst imports from the United Kingdom amounted to a very small percentage not important enough to warrant special classification in the overseas trade statistics. In 1938 exports to Great Britain amounted to 420,000 pounds sterling, and imports from Great Britain totalled 345,000 pounds sterling. It is interesting to note that, allowing for the post-war price differentiation, British exports to Indo-China have now reached the pre-war level and are showing a tendency to rise.

The goods habitually imported into Indo-China include machinery and electrical equipment, automobiles, bicycles, petroleum products, metals, cotton piece-goods, gunny bags, heavy chemicals, paper, hardware, flour, dairy produce, wines and spirits, tobacco and sugar. The categories are much the same as they were before the war, but the emphasis as between one category and another has shifted considerably.

During the latter part of the war, Indo-China was completely isolated and was obliged to develop a very high degree of self-sufficiency. It is, moreover, not intended now that the war is over to allow the country to relapse altogether into its former dependence on overseas sources, and in future its requirements in cotton piece-goods, paper, tobacco and sugar will as far as possible be met increasingly from within its own boundaries.

Dollar Shortage

Under post-war conditions necessitating the strictest economy in the use of all foreign exchange, the tendency to concentrate purchases in the franc area has been accentuated and during the first half of this year, no less than 65 per cent. of Indo-China's exports came from France or from other French overseas territories, the United States retaining second place with 15 per cent. (i.e., tractors, machinery, refrigerators and other priority goods) and the United Kingdom continuing merely as one of the miscellaneous minor sources of supply.

During the latter half of the current year, on account of the world shortage of dollars, there has been a tendency to switch from dollar area to sterling area sources, and this trend is likely to become more marked in 1948. Its effect will almost certainly be felt in India, Singapore and Hongkong, and to a lesser extent in Australia and New Zealand whence flour, butter and cheese are now being imported into Indo-China, rather than in the United Kingdom itself.

For the time being, however, all efforts have to be concentrated on rehabilitation. Foreign exchange is and will for long remain obtainable only for the purchase of priority goods which cannot be obtained in the franc area. It is clear therefore that the prospects of an early large expansion of United Kingdom exports to French Indo-China are somewhat remote.

In so far as sterling becomes available, it tends to be spent on such vital necessities as gunny bags from India, or flour and dairy produce from Australia, and to a limited extent to rice milling machinery and other reconstruction equipment and machinery from the United Kingdom, which goods are, in turn, urgently required by other—some of them hard currency—markets.

However, to say that there is no prospect of an early large expansion in British exports in Indo-China is not to say that there are no possibilities at all. Some of the goods, which are urgently required for rehabilitation are not available in the franc area and, with the growing tendency to shift away from the dollar area sources, such goods might well be ordered in the United Kingdom, particularly in cases where British exporters were able to supply immediately or in the near future. It may, therefore, be of interest to give a brief account of the system of import control at present in force in Indo-

Etuvage (from *etuve* (hot-room)).—The skins are hung up in air-tight rooms, wet and warm, called "etuves" in Mazamet. Fermentation lasts several days until the wool is easily removable from the skin.

That operation is most delicate. The action of the bacteria advances more or less rapidly, not only with each skin, but also with each one of the innumerable blades of wool on each skin, and, once the cement is destroyed, the bacteria attack the skin. Expert foremen are needed to decide of the moment when the skins are mature. Withdrawn too soon, the wool will be hard to remove. Too late, the skin might be damaged or lost.

Classement (Grading of the wool).—Out of the "etuves" the wool is then graded while still on the skin.

Pelage (wool-pulling).—After grading, the sheepskin is handed by lots to the wool-pullers: "peleurs". Each "peleur" is provided with an inclined bench and a curved knife. The woollen skin is placed on the bench and the wool pulled by scraping with the knife.

The wool is next conveyed to drying plants for the production of "lave a dos" or sent to a washing machine to rid it of its insoluble grease.

After drying, the wool is pressed into bales ready to be sent, for a small part, to the spinning centres of the North of France, or, for the largest part, to the textile centres of Yorkshire: Bradford in particular.

The slats are either tanned in the 40 tanneries of Mazamet or sold outside.

ECONOMIC POSITION OF NORTH & SOUTH KOREA

(By A Korean Correspondent)

The goal we must set to establish our country on a sound economic basis is to develop it industrially as well as agriculturally. And this goal will not be reached until our national economy is reorganized on the basis of *nationalizing its important industries and carrying out democratic land-reform.*

Korea still remains an agricultural land today. If we wish to set up our

China. Intending exporters will see from this account that the first and most vital necessity is to have an agent or other representative actually established in Saigon.

Supplies Planning Board

Towards the end of each half-year the Planning Board of the Indo-China Supplies Centre draws up and publishes an import plan for the following half-year. This plan shows under the headings of the various commodities, the quantities to be imported and the sources (franc, sterling area, etc.).

The overwhelming majority of importers belong to one or more of the importers' syndicates (e.g. the Syndicate of Automobile Importers) and either these syndicates or individual non-syndicated importers may submit applications to the Planning Bureau for the inclusion in the plan of specific quantities of specific commodities from specific sources. The Bureau may, of course, ignore or modify such applications in drawing up the plan.

After the publication of the plan, the quantities of each commodity to be imported are divided up by the Director of Commerce and Supplies among all the interested importers. So far as members of the syndicates are concerned this division into quotas is based on their proved share of the particular business during the three years preceding the war, but the Director of Commerce and Supplies reserves the right to accord up to 10 per cent. of the total quantities to unsyndicated importers.

Practically all the imports and exports to and from Indo-China are handled in Saigon. In the circumstances, prospective exporters in the United Kingdom would be well advised to appoint one of the importing houses in Saigon to act as their selling agents for the whole territory.

Various projects for the development of the vast natural resources of French Indo-China are at present in the planning stage, and include hydro-electric power stations, iron and steel works, chemical plants, etc. These must, of course be considered as long-term projects which will require a considerable outlay of capital. There are, however, indications that the French intend to go ahead with these plans as soon as conditions return to normal.

economy on an autonomous basis and await its rapid development, we shall have to industrialize our agriculture with modern technique and, at the same time, develop our manufacturing industries as our principal asset in this field.

From this point of view, it is clear that we must pay attention to our motive power and natural resources among the various factors necessary for reestablishment of the Korean economy. Among the abundant underground resources this country possesses, most of the important minerals except coal, including iron, black lead, anthracite coal, lignite, tungsten and zinc are produced in Korea, north of the 38th parallel barrier. As for electric power, an important motive power, North Korea had a generating capacity of approximately 1,400,000 kilowatts a year immediately before the liberation, while South Korea could only generate 200,000 kilowatts both in heating and hydro-electric power. Since most of the mineral resources and generating power are concentrated in North Korea, metallic, chemical and mineral industries were mostly established there during the Japanese regime while agriculture was the main industry in South Korea, where the production of rice, wheat, cotton and such industries as spinning, food and machine industries were founded in the Seoul-Inchun and other areas.

It must be pointed out that an autonomous economical system can hardly be created on the basis of heavy industries until many industrial factors, including labour, natural resources, raw materials, installations for production, means of transportation and capital are well organized and balanced against each other. In other words the economic autonomy of Korea and the happiness of its people will not be guaranteed until the so-called industrial North Korea and the agricultural South Korea shall have been organically unified.

If the two divided zones should not be unified and economic autonomy be lost, the economic establishment of each zone would assume quite divergent aspects. Even were we to form an autonomous economy only in South Korea, it will be impossible to establish heavy and chemical industries on a large scale, which are indispensable for economic independence, because iron is not produced and coal and electric power are lacking to develop heavy industries in South Korea. Consequently, the economic reorganization of South Korea will be possibly achieved only on the basis of agricultural and light industries. However, South Korea cannot provide the population it contains with enough food today and grain was imported last year from the United States to this area, known before the liberation as the granary of Korea.

Siamese Economic Notes

Recovery of Siam

Siam did not suffer such great war damage as other countries in Asia. Most damage was done to railways, rolling stock and many vital bridges. Passengers have to get out and either walk or be ferried across the gaps. Little heavy cargo can be moved for long distances.

The shortage of consumer goods and currency inflation have brought political instability, but the world need for rice and tin, teak and other products, gives a solid base for economic improvement. The country is well on the way to recovery.

Rice

Rice, the staple product, is being exported under allocations fixed by the International Emergency Food Council until at least the end of 1948. In the current year Siam obtained £18,000,000 in foreign credits for rice to be exported to the rest of Asia. Recently, they have agreed to supply 1,200,000 tons in the coming year. The present price is £24 per ton, and \$31 per ton for 1948.

The problem is one of distribution rather than of supply. A bumper harvest is expected this year, but the damaged railroads, shortage of barges and shipping and the inflationary spiralling of prices have created a black market so bad that the Government has decreed the death penalty for black marketeers in rice.

Tin

Negotiations for the rehabilitation of the tin industry have made good progress. It has been agreed that about £1,750,000 will be required for the rehabilitation of British Commonwealth tin mining interests in Siam in the next three years. Of the Siamese credits frozen in London £1,250,000 will be made available when the mining companies have all entered their claims. The Siamese Government has also agreed to earmark 22,000,000 ticals for local costs.

The Combined Tin Committee estimates that the supplies of tin available are sufficient to meet only half the requirements of the importing countries.

Australian Interest

Australians have a special interest in trade with Siam because they pioneered the tin industry in that country. Tongkah Harbour, with its head office in Tasmania, was the first in the field. Melbourne and Sydney companies now have large interests in Siam.

Australian trade with Siam is hampered both by the lack of a regular shipping service and the transshipment of goods at Singapore and Hong Kong. Somehow the vicious circle of too few goods for a regular service and no ships for the goods must be broken.

CHINESE MEDICINAL PRODUCE

GALANGAL

Galangal is the dried root, or rhizome, of *Alpinia officinarum* (known as the "lesser," or "Chinese," galangal) or of *Alpinia galanga* (commonly called the "greater," or "Java," galangal); both plants are members of the ginger family. *Alpinia officinarum* (the *Alpinia chinensis* of chemists) is the plant which produces most of the world's supply. It is grown abundantly in South China, particularly in Hainan Island, whence large quantities are exported to other parts of China and also to Europe. The term "galangal" is derived from one of the Chinese names for the root, a name which originally was given only to the variety obtained from Kao-liang-fu, in Kwangtung province, a place now known as Kao-chou. The Chinese most commonly call the root liang-chiang, while it is also known as man-chiang, or "ginger of the Man-tzu," the man-tzu being a tribe of aborigines who live in South-west China.

The root appears in commerce in cylindrical, branched pieces from 2 to 4 inches in length, up to about $\frac{1}{2}$ inch in diameter, externally of a rusty brown or reddish brown colour, longitudinally striated, and transversely marked with well-defined circular or diagonally annular whitish lines, the remains of former leaf sheaths. Internally it is orange-brown or greyish brown in colour and dotted with numerous brownish yellow resin cells. It breaks with a fibrous fracture. The odour is agreeable and aromatic; the taste is warm and pungent and resembles that of a mixture of ginger and pepper. The roots are rather smaller than those of the "greater" galangal; they are also darker in colour and have a stronger odour and taste. The odour and taste of galangal are due to the presence of about 0.7 per cent of an essential oil (galangal oil) and a resin. The oil, which may be obtained by distillation of the roots,

has an odour somewhat resembling that of cajuput oil and is used in medicine.

Galangal is used as a spice for flavouring purposes and in the preparation of curry powder. It is chiefly used, however, in medicine and is considered by both Chinese and foreigners to possess stimulant, carminative, stomachic, and tonic properties. It is also used by the Chinese as an aphrodisiac and is often chewed to correct foul breath and to relieve irritation of the throat. Galangal is much used in Russia, particularly for flavouring liqueurs, vinegar, etc.

The seeds of the galangal plant, called "galanga cardamom," are also used in medicine for the same purposes as the roots. They have a pungent, aromatic taste resembling that of the root and are ash-coloured, flattish, and somewhat three-cornered, existing in three-lobed masses contained in oblong or pear-shaped capsules about $\frac{1}{4}$ inch in length, each lobe containing two seeds. The pericarp is pale and thick in the immature fruits, but reddish brown and thin in the mature fruits.

RHUBARB

The rhubarb of Chinese commerce consists of the dried rhizomes or underground stems of *Rheum officinale* (*Rheum palmatum*), an herbaceous perennial which somewhat resembles the ordinary garden rhubarb, but which attains a much larger size, growing to a height of from 6 to 7 feet. The stem is brittle and has a sour, acidulous taste; the leaves are coarse, long, and thick; the flowers are yellow, red, or green, according to the variety; while the root, when fresh, is red, bowl-shaped, and almost 2 feet in length. Rhubarb is grown chiefly in the north-east provinces of China, in Central China,

and in Tibet and is exported mainly from Chungking, Tientsin, and Hankow. The highest priced rhubarb comes from Shensi; good qualities are also grown in Szechwan. There are a great many varieties, the best known from North China.

To prepare rhubarb for the market, the roots are dug up, when from six to seven years old, just before the flowering season. They are then peeled, cut transversely into short pieces, and partially dried on heated stones, afterwards being bored through the middle, placed on strings, and then hung up in the sun to dry, the drying process being usually finished by means of artificial heat. Whole sections of the root are known on the market as "rounds"; when too large, the sections or pieces are divided longitudinally into plano-convex lumps, known commercially as "flats."

Rhubarb appears on the market either in cylindrical, barrel-shaped pieces (rounds), in plano-convex pieces (flats), or in irregular lumps which are often perforated; it varies in size from 2 to 6 inches long and from 1 to 3 inches thick and is sold either assorted into flats and rounds or unassorted.

Rhubarb possesses laxative properties. By Europeans it is used in medicine as a purgative, bitter tonic, astringent, and anti-dysenteric. The Chinese do not make much of its purgative properties, however, but regard it as a general eliminant and tonic to the digestive tract; they also use it in the treatment of malaria and other fevers and in treating diseases of women.

CANTHARIDES

The term "cantharides" includes several species of vesicatory, or blistering, beetles, which are commonly known as "Spanish flies," or "Russian flies." The cantharides of European commerce are furnished chiefly by *Cantharis vesicatoria* (*Lytta vesicatoria*), an insect which is common in Spain, Italy, France, Germany, Austria,

and Russia. These flies are about 1 inch in length and are light metallic green in colour with an azure tint. They live on the leaves of various trees and plants, swarm like bees, and emit an extremely strong, nauseous odour, which can be perceived at a distance. They are usually caught in the late evening or early morning, when their wings are wet with dew, the amount of moisture on the insects causing them to fall off when the tree is vigorously shaken. The insects are collected in cloths, killed by means of vinegar fumes, dried in the sun, and finally preserved in glass-stoppered bottles, usually with the addition of a little acetic acid or a few drops of chloroform.

The value of cantharides is due to the presence of the vesicating principle "cantharidin" which the insects contain, the cantharidin of commerce consisting of a white, shining, scaly, crystalline substance possessing neither taste nor odour, and obtained by powdering the flies, digesting the powder in alcohol, adding water, and then distilling off the spirit.

Cantharides are very poisonous and are used in the manufacture of various stimulating hair-washes, but chiefly in medicine as an irritant, aphrodisiac, and blister.

The cantharides produced in China consist of two species of *Mylabris*—*Mylabris Cichorii* and *Mylabris phalerata*, the latter being the larger. Both these species are black in colour and are marked with three yellow wavy lines or bands, the upper one being imperfect. The flies average rather more than 1 inch in length and possess a disagreeable odour and a slight acrid taste. Chinese cantharides are gathered in autumn and prepared for the market by being dried. They are used by the Chinese in medicine, but large quantities are exported to Europe, chiefly from South and Central China, and for medicinal purposes are preferred to the European product, as the Chinese flies contain more cantharidin. Cantharides should be very carefully kept dry, as when they become damp the medicinal properties become impaired.